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**POLAND HOUSING  
FINANCE PROJECT**

**FINAL PROJECT REPORT**

Prepared for



East European Regional Housing Sector Assistance Project  
Project 180-0034  
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## **POLAND HOUSING FINANCE PROJECT**

### **FINAL PROJECT REPORT**

#### **1.0 INTRODUCTION AND SUMMARY**

This final report describes the Poland Housing Finance Project, sponsored by USAID Warsaw and carried out by the Urban Institute Consortium, which included the Urban Institute in Washington D.C., the Cracow Real Estate Institute in Cracow and Warsaw, Cardiff Consulting in Cardiff, California, and numerous other U.S., Polish, and European team members.

The program was managed on behalf of USAID by Mr. Michael Lee and on behalf of the Urban Institute Consortium (UIC) by Dr. Sally Merrill, of the Urban Institute. The project's local partner, the Cracow Real Estate Institute (CREI), was managed by Dr. Wladyck J. Brzeski and Dr. Edward Kozlowski. Other key team members included Dr. Michael Lea of Cardiff, Dr. Jacek Laszek of CREI, Loic Chiquier, Dr. Douglas Diamond, Marek Koziarek, and Dr. Dr. William Handorf, consultants to the Urban Institute. A full list of team members, with their affiliations and main areas of focus, is provided in Annex I.

The Project, which was carried out during the period October 1996 through February 2000, built upon previous USAID support to housing policy and housing finance in Poland, which began in 1991. USAID's program in Poland and the evolution of the housing finance sector is described in detail in a paper by Michael Lee - included as Annex IV. During the period 1991 - 1996, USAID not only sponsored training and technical assistance, but also provided capital investment support, via the Housing Guarantee Program to Poland's Mortgage Fund. The Mortgage Fund, which received support from the Government of Poland, the World Bank, and the EBRD as well as USAID, provided liquidity for refinancing to banks lending for housing finance. The Fund also served as a catalyst for training in construction and mortgage lending and for technical assistance in the implementation of the Dual Index Mortgage (DIMs), one of Poland's success stories in introducing housing finance in an inflationary environment.

The UIC portion of USAID's Housing Finance Program began in October 1996 with the launching of a first-of-its-kind report -- "Building On Progress: The Future of Housing Finance in Poland", -- a full overview of the housing finance sector, which was followed by major conferences in November 1996 and May 1997., which served to place numerous issues in both private and public housing finance in the public eye for debate. The program gained considerable momentum during 1997 and was fully engaged in numerous topics in public and private sector housing finance during 1998 and 1999. The Project's counterparts - the Polish Banks Association (PBA), the Ministry of Finance (MOF), the Housing and Urban Development Authority (HUDA), the Inspectorate General of the Central Bank (GINB), and the Foundation for Mortgage Credit, a private organization supporting mortgage finance - requested assistance across a broad range of issues.

Two final conferences were held in December 1999: the first, a two-day final conference addressing Poland's successes in housing finance and the outstanding issues still to be addressed, and the second a one-day regional conference in which experts from Poland, Hungary, the Czech Republic, Russia and Slovakia, joined with experts from Romania, Bulgaria, Albania, Khazakhstan, and Armenia to discuss lessons learned in developing housing finance. These conferences marked the formal closing of USAID's housing finance work in Poland. This report, and the two final reports describing these conferences, mark the official end of the program.

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This report serves to briefly document the Project's components, including its staff, its reports, conferences, training events, results, and lessons learned. Full accounts of the successes and outstanding issues for private and public housing finance in Poland are contained in numerous other reports, all of which are summarized in the Abstracts presented in Annex II. Section 2.0 provides a listing of program activities, section 3.0 summarizes the current state of housing finance in Poland, and section 4.0 provides lessons learned. The Annexes present the program staff; the report abstracts, the final report of the Project's housing finance training component and two examples of its „success” stories; and, as noted, Michael Lee's paper presenting the history and evolution of USAID's housing finance program in Poland.

**Dissemination.** Networking and building consensus on major themes are important products of regional exchange and of USAID's and other donors' efforts to develop effective, market-based housing in CEE and NIS. To this end, the Poland Housing Finance Project has developed a Dissemination and Networking System, which has five main elements:

- An English Website
- A Polish Website
- A Regional Professional Network
- Publication of printed Project Reports in English
- Publication of printed Project Reports in Polish

The Websites, in English and in Polish, form the core of the dissemination plan. They include the full range of housing policy and housing finance reports and issues which were addressed by the Poland Housing Finance Program and provide links to numerous professionals and institutions which make up the regional network. The Websites are designed as a resource for public, private, and independent persons and institutions interested in housing finance issues. This includes public sector housing policy officials, formal bankers associations, individual banks and bankers, and research and consulting institutions, as well as USAID and other donors active in the region.

An Advisory Panel was established for the Regional Conference, noted above, with representatives from Poland, Hungary, the Czech Republic, Slovakia, and Russia. This Panel was initiated to assist with finalization of the agenda and the goals for the Regional Conference. This Advisory Group has now been expanded to include all the countries represented at the Regional Conference. It is hoped that this group expands into a permanent source of expertise in housing finance and that the Website can serve as at least one path of communication.

- The English Website can be found at: [www.polandhousingfinance.org](http://www.polandhousingfinance.org); in addition, one may access the Website through the main Website of the Urban Institute.
- The Polish Website can be found at: [www.kin.cc.pl/polhousfin](http://www.kin.cc.pl/polhousfin).

## 2.0 PROGRAM COMPONENTS

The Poland Housing Finance Project provided assistance to its counterparts through a wide range of “media”, including technical reports, simulation models, training in numerous aspects of housing finance,

conferences and workshops, study tours, and data collection. For reference, the full set of products and activities are listed below.

## **2.1 Program Reports**

The following list presents the formal reports prepared during the Poland Housing Finance Project. They are presented under the main topic addressed in the report, although there is considerable overlap, especially between private and public housing finance, which were frequently addressed together in the major reports. As noted, each of these reports is described in the abstracts presented in Annex II. Numerous additional working memoranda and unpublished notes were also prepared in the course of the technical assistance. In addition, several reports were issued in Polish only, including “An Analysis of New Entrants to Housing Finance” by Jacek Laszek, and “Report on the Study Tour of Mortgage Insurance” prepared by the Foundation for Mortgage Credit.

### **2.1.1 Private Sector Housing Finance**

- “Poland Housing Finance at the Millenium: An Assessment of Achievements and Outstanding Issues”, S. Merrill, et al. al. Keynote paper developed for the Final Conference.
- “Global Models for Funding Housing: What is the Best Model for Poland?”, M. Lea. Keynote paper developed for the Final Conference.
- “Report on the Final Conference of USAID’s Housing Finance Project: “A Decade of Building Housing Finance in Poland: Challenges at the Outset of the New Century”, S. Merrill.
- “The Feasibility of Estimating the Demand for Mortgage Credit in Poland”, S. Merrill et. al.
- “Analysis and Recommendations for Revision of Statutory Lien Policy in Poland”, C. Rabenhorst et. al.
- “Analysis of Contract Savings for Housing Systems in Poland,” M. Lea et. al.
- “Dual Index Mortgages (DIMs): Conditions of Sustainable Development in Poland”, L. Chiquier
- “Building on Progress: The Future of Housing Finance in Poland”, S. Merrill et. al.

### **2.1.2 Public Sector Housing Finance**

- “Public Sector Housing Finance Policy Strategies for Poland”, S. Merrill et al.
- “Local Government Rent Policy and Best Practice in Poland: The Need for Rent Reform and an Improved Housing Allowance Program”, S. Merrill, etc. al.

### **2.1.3 Regulation and Supervision**

- “Development of a Regulatory Policy Framework for Real Estate Lending: Review of United States Regulation and Lessons Learned for Poland”, W. Handorf.
- “The Risks of Commercial Real Estate Lending”, M. Lea et. al.



- “Regulation of Mortgage Banks and Mortgage Bonds in Poland: Assessment of the Regulatory Framework for Mortgage Banking in European Union Countries with Lessons Learned for Poland”, L. Chiquier

#### **2.1.4 Other topics: Appraisal, Macroeconomics, and Mortgage Insurance**

- “Property Valuation and Appraisal: U.S. Information System and Recommendations for Poland”, M. Bates et. al.
- “Housing and the Macroeconomy: Tax Reform and Alternative Subsidy Policies for Housing”, S. Merrill, et. al.
- “Prospective Role of Mortgage Insurance in Support of Housing Finance in Poland”, R. Blood.

#### **2.1.5 Regional Analyses of Housing Finance**

- “The Transition in Housing Finance in Central Europe and Russia: 1989-1999, D. Diamond.
- “The Current Operation of the Bauspar Systems in the Czech Republic, Hungary, and Slovakia, D. Diamond
- “Report on the Regional Conference on Housing Finance. “Building Housing Finance in Central and Easter Europe: Sharing and Comparing”, S Merrill.

### **2.2 Simulation Models**

Two simulation models were developed for training and analytical use during the program: (1) the Mortgage Bank Simulation Model, which was developed for the banks, PBA, GINB, and the Foundation for Mortgage Credit and (2) Rent and Housing Allowance Simulation Model, which was developed for the Ministry of Finance and HUDA. As note below, a number of training sessions were held for the Mortgage Bank Model, and the model itself and the operating manual which described it were provided to the counterparts noted above after several iterations of improvement in the Model’s ability to simulate Polish conditions. The Rent and Housing Allowance Simulation Model was provided to HUDA and MOF, and to other USAID consultants who are working in the LGPP Program. Additional training for this model, or updated iterations could be made available by CREI, which collected the data for the current model. Brief descriptions of both models are provided below.

- **Mortgage Bank Simulation Model** . The computerized Mortgage Bank Model (the “model”) is a spreadsheet-based simulation system that is designed to help bank management, analysts, and regulatory decision makers with a flexible and easy to use tool for assessing the performance of financial institutions specializing in the provision of mortgage finance.

The model is based on a cash flow modeling system that allows the user to specify an economic scenario and then simulate the cashflows of actual or hypothetical pools of mortgages, bonds, deposits and other investments. Once cash flows have been generated, the model calculates up to thirty year

projections of the institution's balance sheet and income statement. Simulation sessions can be saved as regular MS Excel (5.0 and 95) spreadsheets then recalled and modified as needed.

An operating manual accompanies the Model. The first section of the Manual details the operation of the model. All components of the model are discussed in detail with pictures of actual model screens used for illustration. The second section of this manual is a tutorial on the use of the model. The final section utilizes a series of basic simulation scenarios to illustrate how the model can be used in a live financial institution.

- **Rent and Housing Allowance Simulation Model.** The Rent Simulation Model is part of a larger analysis undertaken for USAID, MOF, and HUDA to review public sector housing and housing finance policies in Poland. The importance of rent reform, and an effective housing allowance policy, were underscored in the reports on "Public Sector Housing Finance Policy Strategies" and "Local Government Rent Policy and Best Practice". These reports provide recommendations for accelerating rent increases and expanding the housing allowance program (as well as for many other housing sector and infrastructure policies). Since household data suitable for analyzing actual rent burden and the impact of housing allowance program were not available, a simulation analysis combined a number of data sets for income and rent in order to model potential outcomes and help support policy recommendations.

The Model addresses the affordability of housing options available to different income groups by analyzing the interface between an estimate of the household income distribution for employed persons in Poland and a variety of assumptions about rent levels. The simulation analysis considers the impact on affordability of the major subsidy programs - the housing allowance program and the social housing construction program - to see how they affect the rent burden faced by households at different income levels. In addition, the model attempts to determine whether major "gaps" exist in addressing household affordability: for example, whether households not eligible for the current housing allowance program can afford housing under various cost assumptions, or could afford to take part in the low-rent housing project.

### **2.3 Training**

The UIC Project provided an extensive amount of training in housing finance, which included a continuation of training programs begun under previous contracts and special training events initiated by this Project.

First, the Mortgage Lending Training System, which was begun in 1995 under USAID's program with PADCO, was continued by UIC under the direction of Marek Koziarek. The Final Report of this program – the Mortgage Lending Training System – is included as Annex III. Ten "modules" of specific applications of construction and mortgage lending were developed by a Polish team to reflect the requirements of Polish banks and their staff. Most importantly, these modules have been integrated into



the curriculums of three banking schools in Poland (the Gdansk Academy of Banking, the Katowice Banking School, and the Warsaw Institute of Banking).

Secondly, the Project held other training events specific to the Mortgage Bank Simulation Model and to addressing the institutions, products, and procedures of the U.S. system of housing finance. These training events are noted below.

TRAINING SESSION	DATE	SPONSOR	ATTENDEES
Mortgage Lending Training System	Numerous sessions throughout 1997-99	USAID and the Banking Schools	Primarily bankers
Mortgage Bank Simulation Model	October 1997	MOF	Bankers and MOF staff; bank staff
Mortgage Bank Simulation Model	February 1998	PBA, USAID	
Mortgage Bank Simulation Model: adaptation for GINB	December 1998	GINB	GINB Staff

## 2.4 Workshops

Workshops have been distinguished from conferences, as they were generally smaller and more informal. Workshops were held frequently during the Project. In addition, numerous working sessions were also undertaken with our counterparts, especially with the Ministry of Finance with regard to the contract savings systems and revised housing subsidy proposals; these have not been listed here.

WORKSHOPS	DATE	SPONSOR	ATTENDEES
Regulation and Supervision and the Risks of Commercial Lending	September 1997	GINB	40 participants from GINB, MOF, others
The U.S. Housing Finance System	January 1998	PBA	44 bank participants
Introduction to the U.S. Mortgage Market	January 1998	PBA	22 study tour and other bank participants
Overview of the U.S. Housing Finance System	January 1998	HUDA	41 HUDA & local government officials



Mortgage Default Insurance	April 1998	PBA	14 bankers and insurance staff
Analysis of New Entrants into the Mortgage Market	July 1998	UIC presentation to USAID	15
Local Government Rent Policy	July 1999	USAID	Local governments, LGPP staff

## 2.5 Conferences

CONFERENCES	DATE	SPONSOR	ATTENDEES
Building on Progress: the first conference discussing Poland's housing finance system	November 1996	USAID	40
Building on Progress: a major conference discussing public and private housing finance from "Building on Progress" report	May 1997	USAID	90
Public Housing Finance Strategies: major conference discussing public sector housing finance strategies following report "Public Sector Strategies" and "Rent Policies"	January 1999	USAID, HUDA, MOF	97 HUDA, MOF, PBA, Ministry of Labor, Association of Polish Cities, Association "Wspolnota", Housing Research Institute, CHF, LGPP, Senators, President's Chancellery, local governments, private consulting firms, media
Mortgage Default Insurance:	August 1999	Foundation for Mortgage Credit	Approx. 125 banking and insurance staff
Final Conference of the Polish Housing Finance Project: A Decade of Building Housing Finance in Poland: from Strategies to Action Plan	December 1999	USAID & PBA	130 bankers, MOF, HUDA, Housing Research Institute, USAID Washington, World Bank, OECD, Regional representatives
Regional Conference on Housing Finance: Building Housing Finance in Central and	December 1999	USAID & PBA	Regional representatives from



Eastern Europe: Sharing and Comparing			Poland, Hungary, Czech Republic, Romania, Slovakia, Russia, Albania, Bulgaria, Armenia, USAID Washington, World Bank
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## 2.6 Study Tours

Study tours are a relatively expensive form of technical assistance. However, two tours were considered very useful during the course of the project. The first provided Polish bankers with an opportunity to see the U.S. system of housing finance through first hand observations and discussion; prior to the study tour, extensive training on the U.S. system was conducted in Poland for the study tour group (and others), so that a solid overview of the institutions and their roles would provide a foundation for gaining further information during the tour itself. Second, a small group of insurance experts visited selected U.S. insurance companies, after a formal report - "The Prospective Role of Mortgage Insurance" - and workshops had been conducted in Poland.

STUDY TOUR	DATE	SPO NSO R	ATTENDE ES
U.S. Housing Finance Study Tour for PBA	May-June 1998	USAID and PBA	10
Mortgage Insurance Study Tour	July 1999	USAID & Foundation for Mortgage Credit	4 insurance & banking staff



## 2.7 Data Collection

As discussed in the final Assessment Report ("Housing Finance at the Millenium"), as well as in several other reports, including the "Demand for Mortgage Credit", lack of data on the growing housing finance sector is an serious outstanding problem which needs to be addressed in Poland. In order to provide a final assessment and overview of the housing finance system during the December 1999 conference, a "first-of-its-kind" survey of banks lending for housing finance was carried out in August and September of 1999 by CREI. The design and implementation of the survey was completed with the assistance of the Polish Banks Association (PBA). Hopefully, this is the first of many surveys of housing finance which will provide the PBA and the banks with a timely assessment of the market and the trends over time in mortgage finance, and commercial and developer credits.

## 3.0 PROGRAM SUCCESSES AND LESSONS LEARNED

By many standards of comparison, Poland's economic and social transition to a growing, stable, market-based economy is an outstanding success. Poland's housing finance sector has benefited from, and shared in, the economy's recovery to monetary stability and real per capital growth, as well as from the reforms to the banking sector, to the improving legal and administrative framework governing this sector, and to the development of strong support institutions such as PBA. The specific successes of Poland's private sector housing finance are documented in the keynote paper for the final conference ("Poland Housing Finance at the Millenium: As Assessment of Achievements and Outstanding Issues", S. Merrill et. al.). Poland's achievements in housing certainly merit comparison with those of the other advanced transition nations - Hungary and the Czech Republic. And Poland is now in the position to offer lessons learned not only to other nations in Central and Southeastern Europe and NIS, but perhaps to some of the emerging socialist economies in Asia and Africa.

There is, of course, no way to measure the overall contribution of the Poland Housing Finance Program (and its predecessor programs) to the health of the private housing finance sector. Numerous factors were at work. The Project had, however, a more or less direct role in a number of areas. These include: promoting a level playing field across banks and mortgage banks; emphasizing the need for specific regulation and supervision of housing finance; introducing and institutionalizing a housing finance training curriculum in at least three banking schools; and in helping convince policy makers that a Poland-specific contract savings system would be most appropriate for Poland.

There is perhaps, an even more direct link to public sector housing finance. The Project adopted a broad approach to reform across public sector housing finance. Project staff were directly involved in assisting with the agenda of housing reform policies which were proposed in 1999 by the Government. This includes, first of all, reform issues such as ending rent control and improving the housing allowance program to support affordability under revised rent levels; the GOP has agreed to use our proposed "stick" approach to convincing local governments to raise rents on public housing (via reduced sharing of housing allowance costs for governments which do not comply). Ultimately, the reforms were linked to the extremely broad-based reforms of the tax system proposed by the Ministry of Finance.



The Project's proposals for revised housing subsidy policies were directly absorbed into the GOP's 1999 proposals for developing more targeted and transparent subsidies, as well as making them compatible with the broader proposals for tax reform.

In summary, however, although many other specific examples could be cited, the Project's broad and ongoing involvement with numerous counterparts and across numerous topics in public and private housing finance must bear witness to the perception of its value.

This section briefly notes two types of lessons learned: (1) notable aspects of the institutional delivery of the training and technical assistance and the cooperation and involvement with Polish institutions and experts; and (2) substantive lessons learned across private and public housing finance, especially lessons learned which seem most relevant to other transition and emerging nations, gleaned from the perspective of observing the development of market-based housing finance over nearly a decade in Poland.

### 3.1 Lessons Learned in Organizational Approach

**Close Partnership with a Key Local Firm and other Polish Experts.** The principals of our local partner, CREI, have been involved in numerous aspects of reforms in housing and housing finance since the beginning of the transition process. Their various associations include the Ministry of Finance, the Mortgage Fund, the Foundation for Mortgage Credit, local government, and most recently, one of large banks. Not only were their contacts and knowledge of the sector invaluable, but their judgments in settling (sometimes controversial) issues of approach and reform strategies were undoubtedly vital to the program's ability to continue and thrive. Finally, Jan Brzeski's appointment as real estate advisor to Minister of Finance and Deputy Prime Minister Leszak Balcerowicz, brought the program into the position of integrating its analyses of housing subsidy policies with the proposed reforms in fiscal policies at the highest levels.

**Counterpart Associations with All Relevant Government Institutions.** As a corollary to the association with local partners and experts, it was extremely beneficial to work with a wide range of government counterparts. In most countries, and certainly in Poland, responsibility for the broad panorama of reforms in public and private housing finance, including its regulation is shared among the Ministry of Housing, the Ministry of Finance, and the Central Bank.

**Counterpart Association with the Polish Banks Association.** It has also been extremely important to work with, and to help strengthen, the Polish Banks Associations. The Project's close involvement with the PBA's Housing Finance Committee was, it is hoped, beneficial to all concerned. The PBA assisted the Project with understanding reform issues, with contacts with the banks, and, most especially, with co-sponsoring major conferences and thereby providing the all-important forum for debate needed in a reform environment. In turn, the Project assisted the PBA by sponsoring training, a study tour, and through initiating an association with the U.S. Mortgage Bankers Association (MBA). MBA has assisted PBA through a discussion of its mission statement, its organizational structure, its information and analysis activities, and so forth. PBA is also now in closer contact with additional internationally-focused organizations.

**A Global Approach to Staffing: U.S. European, and Polish Team Members Can Modify Global Models of Housing Finance to Meet Poland's Needs.** The various "global" models and methodologies of housing finance, including everything from accessing wholesale funds to appraisal to regulation and supervision, were under discussion in the Project from the beginning. In general, the team adopted the position that such models and methodologies had to be adapted to Poland's specific circumstances, not simply "imported". In this regard, having a team representing a broad range of U.S., European, and international experience, brought the needed perspective. Also, in addition to our partnership with CREI, drawing on Polish experts from banks, from the key bank training schools, from the Housing Research Institute, and from other relevant organizations provided a broad platform of Polish expertise. Together, the team members could forge solutions considered most fully appropriate to Poland's circumstances.

**Institutionalization of Training.** The Mortgage Lending Training System, noted above, was developed with the specific goals of not only offering training in aspects of housing finance modified to fit the needs of Polish banks, but also to institutionalize the training modules in three leading banking schools in Poland. Both were effectively accomplished. In addition, the primarily Polish team which developed the modules was assisted by a Training Resource Group, representing Polish banks and the banking institutions ultimately conducting the training; this group acted as sounding board in the development of the material and as the core of the "train the trainers" delivery system. Thus, as housing finance expands in Poland to other banks (a handful still have the majority of the portfolio, but this is changing fairly rapidly), a training program independent of USAID presence in Poland, is prepared to continue with implementation as demand warrants.

**Institutionalization of Simulation Models.** As noted above, the Mortgage Bank Simulation Model was developed for use by individual banks, PBA, GINB, and the Foundation for Mortgage Credit. A number of initial training sessions were held to test the Model for use in Poland and it was modified and improved following each. The Operating Manual was similarly updated. It is not clear, however, whether this Model was successfully institutionalized, although it was distributed widely. As a generic model of wholesale funding of housing finance, it may have been too general to be of use to address very specific questions. More importantly, using the Model to best advantage requires a quite sophisticated combination of computer and financial skills; thus, the model has most likely found a home in some specific niches of the banks and GINB.

In contrast, the Rent and Housing Allowance Simulation Model, which was developed for assisting the Ministry of Finance and HUDA with rent and housing allowance policy, was simpler to comprehend and simpler to use. It has been integrated by HUDA directly into HUDA's analytical efforts; the Rent Model's results helped focus the debate on reform of rent control rules and the housing allowance program. As noted, the Model was also provided to local government analysts under USAID's LGPP.

### **3.2 Lessons Learned for Developing Housing Finance in Other Transition Countries,**

Development of private and public housing finance in Poland over the last decade can provide many potential lessons learned that are germane and important for development of similar policies in other transition nations. The themes can be summarized under several headings, including the macroeconomic environment; the emergence of a market-based system and effective competition through restructuring of



the banking system; development of supportive government housing subsidy policies; and the development of the institutional, legal, and administrative framework for housing finance.

**Macroeconomic Stability and Affordability.** Macroeconomic policies, which lead not only to falling inflation but also, importantly, to a decline that proceeded on a steady course have been very important to Poland's macroeconomic success. Both high inflation and excessive variability in inflation are extremely damaging to prospects of developing long-term lending, and thus to the development of housing finance.

The gains to financing housing from lower inflation generally far exceed the level of funds that could be expected from government subsidies. Although this may seem intuitively obvious, it is useful to provide numerical examples of these trade-offs to relevant policy makers, especially those who support a very high level of government subsidy intervention. The use of DIM loans, discussed below, were especially effective in a situation of moderate inflation in improving the affordability of a housing finance loan. Thus, again, specific examples of households with reasonably moderate incomes, being able to afford a DIM loan to purchase a modest house (generally possible in most areas except the high-priced districts of Warsaw) were especially instructive.

**Competition, Banking Sector Reform, and the Structure of Housing Finance.** Reform of Poland's banking sector helped propel the overall financial sector towards a modern, market-based, competitive system. This factor is probably second only to macroeconomic stability as a prerequisite to developing a modern system of housing finance. The next major step for Poland's banking system is to increase its efficiency; competition among the universal banks and, in housing finance, between these banks and the new mortgage banks, is a crucial ingredient for improving efficiency.

There is no single "best model" of housing finance. This message was clearly relayed throughout the UIC program and summarized in the second keynote paper for the final Conference in December (see "Global Models for Funding Housing: What is the Best Model for Poland?", Michael Lea). Around the world, different approaches have been developed for both an effective primary market and for secondary market activity, that is, accessing long-term funds from the capital market. There are several components to this particular lesson learned:

- Maintain a level playing field across whatever types of institutions are active in the housing finance market. Competition among market-based institutions is crucial, whether they be universal banks or mortgage banks, as noted above;
- A country does not need a secondary market in order to begin lending in housing finance. Excellence and efficiency in primary market functions is the first important step is the long-term development of a housing finance system. Funding loans through the banks' deposit base is the typical means of beginning the activity;
- Ultimately, in the long-run, a source of long-term funds is necessary and desirable. Linking the housing finance sector and the capital market is beneficial to both sides. Whether wholesale funding is done through various types of mortgage-back bonds or through securitized instruments, the capital market is provided with an important option to Government paper. The type of approach used

depends on any number of factors, including a country's history, legal structure, and financial sophistication (for example, a liquidity facility or mortgage bonds such as planned in Poland is a simpler option than the type of secondary market which exists in the U.S.; the latter may have certain financial/systemic advantages, however, for both banks and overall sector).

**The Enabling Framework for Housing Finance: Reducing and Sharing Risk.** An adequate legal and administrative framework must ultimately be in place to be supportive of a housing finance system (examples are property rights, titling and registration, foreclosure, transactions/IT systems, credit information bureaus, etc.). The sector can certainly begin to function even while certain legal and administrative reforms are in process. Without a fairly complete framework in the medium term, however, *efficient* housing finance cannot emerge because systems are not in place to deal with risk; if the banks must bear an excessive portion of the risks in lending, spreads will remain much too high.

The tasks which face Poland in the immediate future certainly include completing the enabling framework and ensuring a level playing field

**Catalysts in Jump-Starting the New System in Poland.** In Poland, ending subsidized lending, support to a liquidity facility, and an affordable mortgage product (the DIM), were all important catalysts in taking the first steps in housing finance. The list of potential catalysts in each country will differ. In Poland, however, the end of subsidized lending by PKO BP opened the way to competition and market-based development. The role of the Mortgage Fund was noted above in the introduction; the Fund was instrumental in introducing DIMs as well as in funding a small group of lenders. DIMs are one of Poland's unique success stories; various types of dual indexed mortgages have a mixed record elsewhere in the world. They proved to be successful in Poland, however, in an environment of falling rates, and considerably enhanced the affordability of mortgage loans. Each country should look for both its "market-breakers" - barriers which will stop market-based finance in its tracks - and "market catalysts" - an institution, pilot product, demonstration effect in showing affordability, and so forth.

**A Broad-based Approach to Housing Finance: Attention to the Overall System.** The UIC program was fortunate in being supported by USAID in such a way as to be able to address nearly all the various aspects of housing finance at once. The broad-based reform strategy appears to have proven its effectiveness in Poland, as the program continued to receive requests from its counterparts with regards to such diverse topics as institutional structures, primary market functions, regulation and supervision, legal reforms, appraisal methodologies, appraisal information systems, contract savings systems, housing subsidy policies, and mortgage insurance. The program was also able to utilize numerous "modalities" of assistance, including training, workshops, conferences, and research reports. In summary, the program was ultimately a coherent whole because it was comprehensive, and this sense of "overall system" could be conveyed to Poland. Finally, linking public and private sector housing finance is also extremely important, and is discussed below as the final lesson learned.

**Compatibility with Government Housing Policies and Reforms: Addressing New Market Concepts and Approaches to Analysis.** Two topics are especially important in this final lesson learned:

- It is necessary (and extremely important) to join public and private housing finance in a combined and coordinated reform process; and



- Market-based concepts may be as important to public sector housing finance as to private sector housing finance.

UIC's program addressed a large range of public sector housing reform policies and housing subsidy policies in conjunction with HUDA, and ultimately, also with the Ministry of Finance, as the housing subsidy process became a major issue with regard to the Government's proposals for tax reform and MOF's efforts to control the budget. The program sought to convince the authorities to examine Poland's perceived housing shortage from the perspective of effective demand and to improve the compatibility of Poland's subsidy process with market-based housing finance and housing sector development in general. Several examples will suffice.

- First, Government officials and research institutions alike had traditionally defined housing "need" as basically the gap between the number of households (now or in the future) and the number of physically acceptable housing units. This is not a useful approach when the task is to determine how to fund this gap – through a household's own resources, government subsidies, and housing loans. The effective demand methodology is now better understood.
- Second, the importance of rent reform to encouraging the development of a private rental sector and to effectively targeting housing allowance subsidies became much more widely accepted. As mentioned, Government may adopt a "carrot and stick" approach to encouraging local governments to increase rents.
- Third, the program helped Poland to select housing subsidy policies which were (1) compatible with its tax reform proposals, (2) compatible with the expansion of market-based housing finance, and (3) better targeted to those in need. Our proposals were presented in the report "Housing and the Macroeconomy: Tax Reform and Alternative Subsidy Policies for Housing", which was completed based on a lively "virtual" debate carried on among staff from UI, CREI, and additional consultants specializing in analysis of subsidy policies. The proposals were adopted by Government in its proposals to Parliament.



## **ANNEX I**

### **POLAND HOUSING FINANCE PROJECT TEAM MEMBERS.**

#### **PROJECT MANAGEMENT**

Sally Merrill, Project Manager, Senior Associate, Urban Institute  
J. Wladyck Brzeski, Chairman, CREI, and Ministry of Finance  
Edward Kozłowski, President, CREI  
Ewa Strumillo, logistics manager, consultant CREI  
Barbara Werchowicka, Research Assistant, CREI  
Rebecca Lawrence, Research Assistant, Urban Institute  
Eric Zaretsky, Research Assistant, Urban Institute

#### **PRIVATE SECTOR HOUSING FINANCE**

Michael Lea, President, Cardiff Consulting Services  
Jacek Laszek, Bank Śląski (formerly CREI)  
Loic Chiquier, World Bank (formerly BISE)  
Steven Bernstein, Cardiff Consulting Services  
Roger Blood, Mercer Management Consulting  
Patric Hendershott, Ohio State University  
Piotr Karas, consultant, CREI  
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Achim Dubel, World Bank (formerly consultant, Urban Institute)  
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#### **PUBLIC SECTOR HOUSING FINANCE**

Douglas Diamond, consultant, Urban Institute  
Stephen Mayo, Lincoln Institute, consultant, Urban Institute  
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Maris Mikelsons, Senior Associate, Urban Institute  
Duncan MacLennan, consultant, University of Glasgow  
Bengt Turner, University of Uppsala, consultant, Urban Institute  
Martha Sickles-Grabowska, consultant, Urban Institute  
Maciej Grabowski, consultant, Urban Institute  
Katherine Aukward, consultant, Urban Institute  
Eligiusz Koniarek, Polish Home Builders Institute  
Zbigniew Tlok, consultant, Urban Institute

**TRAINING**

Marek Koziarek

The Training Resource Group, Polish consultants to the Training Project

**REGULATION AND SUPERVISION**

William Handorf, George Washington University

**LEGAL ISSUES**

Carol Rabenhorst, Senior Associate, Urban Institute

Tomasz Stawecki, consultant, Urban Institute

Klaus Peter Follack, consultant, Urban Institute

Malgorzata Wrolek-Romanczuk, consultant, Urban Institute

**APPRAISAL**

Mark Bates, Certified Appraiser, Bates Associates, consultant, Urban Institute

David Dale-Johnson, University of Southern California, consultant, Urban Institute



## ANNEX II: ABSTRACTS OF POLAND HOUSING FINANCE PROJECT REPORTS

### URBAN INSTITUTE CONSORTIUM REPORTS FOR THE USAID/POLAND HOUSING FINANCE PROGRAM

***Poland: Housing Finance at The Millennium  
An Assessment of Achievements and Outstanding Issues***

Dr. Sally Roe Merrill  
*The Urban Institute*  
Dr. Edward Kozlowski  
Mr. Piotr Karas  
*Cracow Real Estate Institute*  
Dr. Jacek Laszek  
*Bank Slaski*  
February 2000  
Project No. 6933-002

Poland is now developing one of the most effective systems of housing finance among the transition countries. The sector has reached an enviable position in replacing decades of state monopoly and control with a market-driven and competitive environment.

This report looks at the evolution of housing finance in Poland and at the factors that have supported its development. An overview of the portfolio, the major lenders, and the characteristics of typical mortgage products is provided, based on a first-of-its-kind survey of banks developing business in housing finance. The efficiency of the system is analyzed through a variety of efficiency measures, including the spread (the gap between the mortgage lending rate and the cost of funds), "real" rates (the gap between the mortgage rate and inflation), and "intermediation efficiency" (the gap between the mortgage rate and the Treasury bill rate). The report also assesses the major issues which remain to be more fully addressed as the system matures, including developing information systems to assist with analysis and management of risk, maintaining a level playing field between the universal banks and the emerging mortgage banks, and re-assessing risk sharing, especially the proportion borne by the lenders, as the legal infrastructure and new credit enhancement mechanisms evolve.

***The Transition in Housing Finance in Central Europe and Russia: 1989-1999***

Douglas B. Diamond  
*The Urban Institute*  
February 2000  
Project No. 6933-002

This report describes and analyzes the past and near-term prospects for housing finance in Russia and four Central European countries (the Czech Republic, Hungary, Poland, and Slovakia). The focus is on the policies, institutions, and forces shaping the market today, but the starting points and transition process are also covered.

Three major conclusions are drawn. First, all four Central European countries have adopted similar institutional structures for their new housing finance systems. Second, homebuyers in Central Europe are



so far unusually reluctant to borrow, even at subsidized low real rates, unless rates are below the return on bank deposits. However, mortgage market in Poland seems to be growing at an accelerating pace. Third, the Bausparkassen-type institutions, which have been very popular, may supplant mortgage or commercial banks as the primary housing lenders in all countries other than Poland, even though they will not provide the sorts of public benefits expected.

With respect to Russia, the housing finance sector has made greater progress towards market-based operation than the economy as a whole. Partially due to continuing USAID-funded technical assistance, the sector is poised to develop rapidly whenever macroeconomic conditions grow more supportive of long-term lending.

***Global Models For Funding Housing: What Is The Best Model For Poland?***

Michael Lea

*Cardiff Consulting Services*

February 2000

Project No. 6933-002

Polish housing finance has progressed considerably in recent years. As recently as 1996, the entire country had only four lenders and 653 million zloty of market rate mortgages. By mid 1999, over thirty lenders were active in the housing finance market, with over 3.9 billion zloty of market rate mortgages outstanding.

To date, all mortgage lending in Poland has been done by commercial banks. A lively debate regarding the introduction of alternative models for the provision of housing finance has emerged. Legislation authorizing creation of specialized mortgage banks and contract savings institutions (Bausparkassen) was passed in 1997. Two mortgage bank licenses have been granted recently, but there has been no lending activity to date. In addition, there has been discussion about securitization and an on-going role for the Mortgage Fund, a second tier refinance facility created in 1994.

What should be the appropriate model for accessing funds for housing is a question not unique to Poland. Historically, many countries have created specialized institutions and special circuits for the funding of housing. Although such special circuits have been replaced in many countries, they are still important in several countries and continue to be introduced in both developing and transforming market contexts.

This paper reviews the four major models for funding housing that are being discussed in Poland today: the universal banking model, the mortgage bank model, the contract savings model and the secondary mortgage market model. The review briefly describes each model, notes its strengths and weaknesses, and characterizes its relative importance in developed country housing finance. The paper concludes with a view as to the likely evolution of housing finance in Poland in the early 21st century.

***Final Conference of USAID's Housing Finance Project:  
A Decade of Building Housing Finance in Poland  
Challenges at the Outset of the New Century***

December 8-9, 1999

Warsaw

Dr. Sally Roe Merrill

*The Urban Institute*



This conference, organized by the Urban Institute and its Polish partner, the Cracow Real Estate Institute was the final conference of the Poland Housing Finance Project of the United States Agency for International Development (USAID), and was co-sponsored by the Polish Banks Association (PBA) and USAID. The two-day conference was held in Warsaw on December 8 and 9, 1999 and included over 200 speakers, discussants, and guests.

The conference provided a celebration of the achievements of the market-based housing finance sector in Poland. It represents the culmination of USAID-sponsored housing finance work in Poland, which has taken place over nearly a decade. More specifically, the conference embodies three years of intensive work in housing finance by the Urban Institute Consortium (UIC), which itself built on previous USAID-sponsored work. The Urban Institute Consortium, directed by Sally Merrill, worked in close concert with the manager of USAID's housing finance program, Michael Lee, to assist both public and private housing finance. The Project developed close counterpart relationships with the PBA, the Ministry of Finance (MOF), the General Inspectorate (GINB) of the National Bank of Poland (NBP), the Housing and Urban Development Agency (HUDA), and the Foundation for Mortgage Credit (FMC). The Cracow Real Estate Institute has served as the Urban Institute's partner in Poland since UIC began its work in October 1996. The consortium has also worked with numerous Polish experts in housing finance and housing policy, and with Polish bank training institutes, the Polish Association of Homebuilders, and the Polish Federation of Valuers' Associations.

***Regional Conference on Housing Finance:  
Building Housing Finance in Central and Eastern Europe: Sharing and Comparing***

December 10, 1999

Warsaw

Dr. Sally Roe Merrill

*The Urban Institute*

The Regional Conference on Housing Finance was a one-day regional workshop for policy makers and practitioners involved in housing finance and housing finance policy throughout Central and Eastern Europe (CEE), Russia, and the Newly Independent States (NIS). A group of countries with relatively advanced systems of housing finance, the Czech Republic, Hungary, Poland, Russia, and Slovakia shared their experiences with participants from Bulgaria, Romania, Albania, Armenia, and Kazakhstan.

The conference, which was co-sponsored by the United States Agency for International Development (USAID) and the Polish Banks Association (PBA), was the second portion of the closing events of USAID's Poland Housing Finance Program, undertaken on behalf of USAID by the Urban Institute Consortium (UIC). On December 8 and 9, a final conference discussing the issues surrounding both private sector housing finance and public sector housing policies—"A Decade of Building Housing Finance in Poland: Challenges at the Outset of the New Century," was held to celebrate the achievements of nearly a decade of development of the Polish housing finance sector. This conference was also sponsored by USAID and the PBA, and included the participation of the Housing Finance Project's other counterparts in Poland i.e., the Housing and Urban Development Agency, the Ministry of Finance, and the Foundation for Mortgage Credit. Most of the speakers for the Regional Conference and a number of the participants also attended this final conference on Poland, which allowed them the opportunity to assess the various actions important to achieving success in housing finance and to gain some perspective on the evolution of factors in the development process.



*Property Valuation and Appraisal  
U.S. Information Systems and Recommendations for Poland*

Mark Bates  
David Dale-Johnson  
W.J. Brzeski  
*Cracow Real Estate Institute*  
September 1999

Real estate appraisals can provide current market value estimates to support multiple purposes, including purchase or sale, financing and related underwriting, property listing, assessment for tax purposes, and value at transfer (inheritance or gift). Readily available real estate data facilitates more accurate appraisals, allowing real estate risk to be more precisely assessed by buyers, lenders (primary and secondary), and regulatory authorities.

Three appraisal methodologies are standard for U.S. appraisers and for most appraisers worldwide, including those in Poland:

- Sales comparison: The value indicated by recent sales of comparable property in the market.
- Income: The value of a property's earning power based on the capitalization of its income.
- Cost: The current cost of reproducing or replacing the property, plus improvements, minus the loss in value from depreciation, plus site value.

The reliability of the final estimate of value, however, is intimately tied to the reliability of the data. In the U.S., the real estate valuation process typically begins with a broad overview of market forces using general data, continues with an analysis of regional and local market conditions, and ends with an analysis of specific data applicable to a particular property or properties. In most geographic locations, for most types of property, extensive data are available, both public and private, and the available data are generally able to support the chosen valuation methodologies. This is not the case in Poland nor in the transition countries in general, since under the state-dominated real estate sector, a valuation process, as used in market-based transactions, did not exist. Thus, Poland now needs to establish the relevant data series and build the corresponding databases.

This paper reviews the residential and commercial appraisal process in the United States, describes the databases that support them, and discusses the particular roles of the public and private sectors in making data available. It identifies the general macroeconomic data (national and regional) and the property-specific data needed if appraisals are to accurately assess both value and potential risks. It surveys the strengths and weaknesses of the current U.S. and Polish systems, and points out that, though Polish appraisers understand and use all three appraisal methodologies, an engineering tradition that focuses on physical attributes, combined with lack of market transactions and income data, may lead them to emphasize the cost approach. In addition, the Central Bank, in its role as regulator of mortgage banks now being established in Poland, must determine the rules underlying the concept of "mortgageable value" for the underlying collateral of mortgage bonds. Thus, a unique opportunity exists in Poland to develop a system of collection and distribution of real estate data based on current international best practice, and

the paper makes general recommendations as to the components of such a system and how it might best be developed in Polish circumstances.

***The Feasibility of Estimating the Demand for Residential Mortgage Credit in Poland***

Sally Merrill and Rebecca Lawrence

*Urban Institute*

Stephen Mayo, Maciej Grabowski, Martha Sickles-Grabowska, Marek Koziarek

*Urban Institute Consortium*

Edward Kozłowski

Piotr Karas

*Cracow Real Estate Institute*

April, 1999

RFS 638

This paper provides a brief commentary on the demand for housing and the related demand for mortgage credit. No attempt to actually estimate the demand for credit or the demand for housing has been made (in the first instance, the requisite data are not available at present). Rather, the purpose of this paper is to provide a discussion of the types of housing models that are generally developed, the practical applications of these models, and the types of data necessary to their estimation.

The study has been prepared based on a request from the Ministry of Finance (MOF) and the Foundation for Mortgage Credit, among others. It will, hopefully, be useful to their efforts to understand the factors underlying the demand for housing and the demand for mortgage credit, and the relationship among these and the other asset and consumer goods choices facing Polish households. Estimates of long-term demand relationships, and their variance according to household characteristics, should also be useful to the Housing and Urban Development Authority (HUDA) for developing housing subsidy policies that best achieve their desired policy ends. Finally, our comments should also be useful to the Polish Banks Association (PBA) and individual banks in order to assess what types of databases and methodologies are relevant to forecasting the potential demand for mortgage credit.

Recommendations are then made for next steps in Poland. The most important of these is to develop a long-term, ongoing survey: a "Survey for Housing and Consumer Finance." The survey would be conducted on a representative sample of households (the sample could provide not only nationwide estimates but also individual estimates for Poland's largest cities and/or other geographic areas, for example). Microeconomic data from this survey will be crucial to estimating the basic models for the demand for housing and mortgage credit (and consumer credit as well, for example). Other recommendations include developing modifications to the traditional models of the demand for housing and mortgage credit relating to the barriers between potential and effective demand in Poland (and other transition countries); developing a database of mortgage credit information based on existing bank portfolios, linking household-level data on loan characteristics and household characteristics; and, in order to establish benchmarks for demand in Poland, comparing key housing indicators from advanced emerging nations, such as Turkey and Chile, and key housing finance statistics from Western European nations just recently experiencing a surge in the demand for mortgage finance.

***Housing and the Macroeconomy: Tax Reform and Alternative Subsidy Policies for Housing***

Sally Merrill

*The Urban Institute*

Patric Hendershott



Stephen Mayo  
Michael Lea  
Douglas Diamond  
*The Urban Institute Consortium*  
April, 1999  
RFS 638

This paper discusses two topics of immediate interest to the current policy debates in Poland: (1) the role of the housing and housing finance sectors in the macroeconomy and (2) alternative approaches to housing subsidy policy for owner-occupied housing, particularly in the context of the proposed reform of the tax system towards lower tax rates. The paper, which was prepared following a request to USAID from Deputy Prime Minister and Minister of Finance Leszak Balcerowicz, stems from ongoing discussions with the Government of Poland, especially the Ministry of Finance. It also draws from previous work undertaken by the Urban Institute Consortium, on behalf of USAID, for the Housing and Urban Development Authority, the Polish Banks Association, the National Bank of Poland and the Foundation for Mortgage Credit. More specifically, it is based on material further developed in Patric Hendershott, "Taxing and Subsidizing Housing"; Sally Merrill, et. al., "Public Sector Housing Finance Strategies for Poland" and "Local Government Rent Policy and Best Practice in Poland: The Need for Rent Reform and an Improved Housing Allowance Program"; Stephen Mayo, "Housing and the Economy" Douglas Diamond, "The Transition in Housing Finance in Central Europe"; Sally Merrill et. al., "The Feasibility of Estimating the Demand for Residential Mortgage Credit in Poland" and M. Lea et. al. "Analysis of Contract Savings for Housing in Poland".

Poland's plans to undertake major reform of its tax system present an excellent opportunity to reconsider the goals and subsidy policies for the housing sector. In the first instance, a move toward a proportional tax system suggests elimination of the current, large tax benefit to new construction, as well as certain other tax-related benefits. What might be the preferred alternatives to this subsidy for owner-occupied housing, if any?

Although the authors were asked to comment on alternatives to the current system of tax benefits, the discussion of subsidy policy is best couched in a more complete assessment of the problems facing the housing sector in Poland and the major priorities for its reform. Thus, the paper considers both existing and alternative types of subsidies. No subsidy policy, however, is likely to have the desired effect in a housing sector that is burdened by distortions in pricing; rigidities in supply response, mobility, and tenure choice; and lack of an adequate legal and administrative framework. In this context, the key problems in the sector are also noted.

Key issues addressed here include the following:

- the important relationships between housing and the macroeconomy;
- the macroeconomic consequences of an inefficient and poorly functioning housing sector;
- constraints to development of an effective housing sector, especially those imposed by policy legacies in transition economies;
- the key principles that guide effective and efficient housing subsidy policy, including realistic estimates of housing need; and
- housing subsidy alternatives for assistance to owner-occupied housing: direct grants and either an interest rate buy-down or a limited mortgage interest rate deduction.

***Public Sector Housing Finance Policy Strategies for Poland***





Sally R. Merrill  
*Urban Institute*  
Michael Lea  
*Cardiff Consulting Services*  
Douglas Diamond  
Martha Sickles-Grabowska  
Katherine Aukward  
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Rebecca Lawrence  
*Urban Institute*  
December 1998  
RFS 648

A team of housing finance experts of the Urban Institute Consortium has reviewed the public sector housing finance policies proposed in the Housing and Urban Development Authority's (HUDA) Strategy Report, particularly those policies in which the central government has the predominant role or a strong supporting role with the gminas or other levels of government. This report looks at proposed housing finance policies and discusses options, goals, and strategies. It attempts to provide recommendations which the government of Poland might use in continuing to formulate and carry out its strategies based on a review of the HUDA Strategy Report and discussions with HUDA officials, other government institutions, and other housing experts in Poland during late June 1998.

***Local Government Rent Policy and Best Practice in Poland: The Need for Rent Reform and an Improved Housing Allowance Program***

Sally R. Merrill  
Rebecca Lawrence  
*Urban Institute*  
Harry Garnett  
*Urban Institute Consortium*  
Wanda Urbanska  
*Housing Research Institute*  
Edward Kozłowski  
Jacek Łaszek  
*Cracow Real Estate Institute*  
November, 1998  
RFS 636

A team of housing policy experts from the Urban Institute, the Cracow Real Estate Institute, and the Housing Research Institute has reviewed a wide range of issues with regard to gmina rent policy for communal and other rent-controlled housing. The most important topic of the report concerns the very limited progress, which has been made by gminas with regard to raising rents. Rent reform is considered by the UIC team to be one of the most crucial aspects of policy reform yet outstanding in the housing sector. Failure to undertake rent reform has two serious consequences. First, for the vast majority of gminas, rent revenues are so low that they do not even cover current maintenance costs, much less capital



repairs. Second and more importantly, from a nation-wide perspective, without rent reform a private rental market for rental housing will not emerge, nor will households who can pay full costs for housing be encouraged to do so.

Since a few gminas have been able to overcome the apparently strong resistance to rent reform, the report has sought to understand the "best practice" procedures, which have enabled them to make progress. The report also addresses housing allowance utilization, utility costs, rent burden, revenues in communal housing, management issues in communal housing, and restructuring of rents to reflect differences in unit quality, a policy reform also called for under the 1994 Rent and Housing Allowances Act.

The Urban Institute Consortium team has based its analysis on several sources of information: an analysis of existing data, particularly the housing data regularly collected by the Housing Research Institute; interviews with a sample of fifteen gminas to ascertain their rent policies in the context of overall housing policy; more detailed interviews with a sample of five gminas selected to represent best practice in rent and/or housing policy. In addition, we have included portions of a simulation analysis carried out for USAID as part of a recent report "Public Sector Housing Finance Policy Strategies for Poland"; this analysis assists our understanding of the rent burden faced by households of different income levels and in different voivodships and also supports our recommendation with regard to the improving the housing allowance program to better support real rent reform.

***Regulation of Mortgage Banks and Mortgage Bonds in Poland: Assessment of the Regulatory Framework for Mortgage Banking in European Union Countries with Lessons Learned for Poland***

Loïc Chiquier

*Urban Institute Consortium*

November 1998

RFS 643

This paper offers an analysis of regulatory issues introduced by Poland's Act on Mortgage Banks, focusing on European Union countries' experience in the regulation of mortgage banks and mortgage bonds and the implications of the different rationales underlying regulation for decisions which must be made in Poland. It also includes an analysis of a major report prepared by the Foundation for Mortgage Credit, "Development of Terms and Conditions Concerning Implementation of the Act on Mortgage Bonds and Mortgage Banks of 29 August, 1997." Recommendations are made for the Polish environment based on an analysis of EU rules and regulations, particularly of risk-weighting rules and valuation and appraisal practices in residential, commercial, and construction lending; legal lending limits for mortgage banks; capital adequacy requirements on mortgage bonds and other products related to housing finance; and minimum equity requirements. This document was prepared at the request of USAID/Warsaw for the attention of the National Bank of Poland.

***Prospective Role of Mortgage Insurance in Support of Housing Finance in Poland***

Roger Blood

*Urban Institute Consortium*

September 1998

RFS 629

The objective of this paper is to assess the development of insurance products relevant to real estate lending in Poland, and in particular to provide an analysis of the relevance and feasibility of mortgage default insurance to the current and evolving mortgage industry in Poland. The report also includes a brief



discussion of several other mortgage-related insurance products which appear ripe for more immediate adoption or broader usage in Poland. Mortgage default insurance may be able to play a useful future role in Poland as the nation's housing finance sector develops and matures, especially by enhancing affordability for more prospective homebuyers and supporting the development of a private secondary mortgage market by helping to build investor confidence.

***The Current Operation of the Bauspar Systems in the Czech Republic, Hungary, and Slovakia***

Douglas Diamond

*Urban Institute Consortium*

September, 1998

RFS 645

This document describes the history and current operations of the Bauspar systems in three Central European (CE) countries: the Czech Republic, Hungary, and Slovakia. It is based on interviews and data collected in June 1998 as part of a study of the transition in housing finance in these countries. Each of these countries has adopted a version of the German and Austrian system of separate contract-savings banks for housing, or "Bausparkassen." It is most likely premature to evaluate the achievement of the four goals of Bauspar systems, namely (1) to subsidize housing, (2) to increase savings, (3) to indicate credit-worthiness, and (4) to create a pool of stable funding. However, policymakers in the Czech Republic and Slovakia suggest that the system has been a disappointment in terms of real effect on the housing market relative to the outlay of budget resources, at least in the period until the low rate loans become commonly available, and in each country the large advantages to participating have actually introduced an element of instability where none existed previously. However, it is most likely premature to evaluate the achievement of the four goals of Bauspar systems, namely (1) to subsidize housing, (2) to increase savings, (3) to indicate credit-worthiness, and (4) to create a pool of stable funding. What is certain is that the maturation of the Bauspar systems will greatly expand the amount of borrowing for "housing purposes."

***Analysis and Recommendations for Revision of Statutory Lien Policy in Poland***

Carol Rabenhorst

*Urban Institute*

Jacek Łaszek

*Cracow Real Estate Institute*

Tomasz Stawecki

Klaus Peter Follack

*Urban Institute Consortium*

September, 1998

RFS 646

This report considers the Government of Poland's current policy on statutory liens, in response to a request made by the Ministry of Finance to USAID. In Poland, a statutory law confers certain rights and privileges on the government to facilitate the collection of taxes and other fiscal obligations is the so-called statutory lien or mortgage. This law gives the government an automatic security interest in real property owned by a debtor who has failed to meet financial obligations owed to the state or *gmina*. Bankers in Poland cite the statutory lien as a major impediment to entering or vigorously pursuing the housing finance market. Their experience indicates that mortgage loans cannot be adequately secure as long as there is a possibility of a government statutory lien that will have superseding priority even if it



arises later than the bank's lien. Experience to date with execution procedures (all in non-residential mortgages) demonstrates the detrimental effect of the statutory lien. In 70-80% of execution cases, the state exercises its right to recover tax obligations; in cases where the state is a claimant, the bank loses 50-80% of the balance of its loan. The absence of direct experience with execution on residential property results in substantial uncertainty with regard to the statutory lien and how banks can best protect themselves. Consequently, the risk is shifted to the borrower. The results are more expensive and time-consuming loan application and underwriting procedures, more expensive loans with less attractive terms, and less competition in the banking sector.

***Development of a Regulatory Policy Framework for Real Estate Lending: Review of United States Regulation and Lessons Learned for Poland***

William C. Handorf

*Urban Institute Consortium*

May 1998

RFS 642

This report evaluates prudential regulation established by federal banking supervisors for real estate lending by banks in the United States. While the analysis focuses broadly on topics in prudential regulation felt to be relevant to Poland, there is a strong focus on topics of special priority for NBP and NBP's General Inspectorate (GINB): risk weighting rules for residential and commercial real estate loans, regulation of appraisal, and parameters for legal lending limits.

The lessons learned from this review of prudential regulation of real estate finance in the U.S. and from a review of problems facing banks in the United States from the mid-eighties to mid-nineties—many of them real estate related—support a number of recommendations for NBP to consider. The recommendations are, in most instances, equally valid for regulation of mortgage lending by both universal banks and mortgage banks.

This report recommends that the National Bank of Poland consider modifying or expanding certain prudential rules that relate to real estate lending and enhance monitoring efforts to ensure that banks do not engage in excessively risky real estate lending nor replicate the pattern of liquidations of U.S. banks that were related to problem real estate loans. The National Bank of Poland can learn from the expensive lessons related to real estate lending in the U.S.; however, there are clearly differences in law, appraisal standards, credit information and economic development that must be considered, and—to the full extent possible—the report's recommendations have been developed in light of these differences. It is recommended that NBP should carefully monitor real estate lending, retain the 100 percent risk-weight for commercial real estate loans and residential real estate loans, and reduce the loan-to-one-borrower limit from 25 percent to 15 percent of capital for commercial real estate loans to ensure banks obtain a more diversified portfolio and maintain adequate capital, and expand staff training in real estate lending risk. Finally, several regulations are made regarding the expansion of the regulation of appraisal.

***Analysis of Contract Savings for Housing Systems in Poland***

Michael Lea

*Cardiff Consulting Services*

Jacek Łaszek

*Cracow Real Estate Institute*



Loïc Chiquier  
*Urban Institute Consortium*  
March 1998  
RFS 645

This report compares and contrasts the two Polish systems (*kasy mieszkaniowe* and institutions modeled after the German *Bausparkassen*), with each other and with the variants recently introduced in the Czech Republic, Hungary and Slovakia, and analyzes their potential effects on the state budget and housing finance system. Based on this analysis the recommendations for amending the *Bausparkassen* legislation are offered.

The report finds that *Bausparkassen* program will be very attractive to users of housing loans in Poland. The savings rates are high over a short term horizon (three years) but steadily decline as inflation erodes the value of old savings (earning three percent after the first year). However, the availability of the low rate loan means that the net present value of the combined loan and savings are positive throughout the periods, although they fall after five years at higher rates of inflation.

Changes in the subsidy formula are suggested. First, a reduction in the initial level to 20 percent would provide attractive but not extraordinary returns to households in the current environment. It is also recommended that the formula should be indexed rather than to depend on ad hoc future adjustments which have to go through the legislature with uncertain results and timing. For budgetary purposes, it is recommended to fix a maximum cap in nominal Zloty rather than to index the cap to house prices. Finally, a limit on the number of years households can receive a subsidy would eliminate long tails on subsidy obligations.

The report recommends that a longer minimum savings period and a reserve fund to meet future loan demand should be required. It also recommends that it should be made clear that the *Bausparkassen* cannot guarantee immediate funding of the loan upon completion of the savings contract and that *Bausparkassen* deposits should be subject to the same deposit insurance premiums as deposits in other financial institutions.

The Czech and Hungarian *Bausparkassen* laws are more detailed and somewhat more conservative than the Polish Act. The premiums are less generous relative to monthly incomes, the required savings periods are longer, and the premium may be kept after a minimum period in order to encourage participation of non-borrowing savers. The Czech and Hungarian Acts specifically allow waiting periods and interim loans. The Hungarian legislation contains a number of regulatory provisions designed to minimize liquidity risk and is an appropriate model to consider for Poland (as the macroeconomic environments are similar).

### ***Dual Index Mortgages (DIMs): Conditions of Sustainable Development in Poland***

Loïc Chiquier  
*Urban Institute Consortium*  
February 1998  
RFS 625

This paper responds to NBP's need for a better understanding of DIMs and their inherent risks, as well as providing suggestions regarding the potential prudential regulatory and supervisory parameters appropriate to these products. In inflationary economic conditions, DIMs can be an effective housing finance instrument. The unique ability of DIMs to self-adjust provides opportunities for both borrowers and lenders, combining credit affordability and, ultimately, profitability for the lender. DIMs amortize according to two independent indexes—an index reflecting the changing income of borrowers and a



financial index—as the flow of payments and amortization rates are separated from credit rates. Despite their efficacy, DIMs are complex products to underwrite, and if improperly underwritten, they can lead to severe contingent liabilities.

Several characteristics of DIM credits make the DIM system a practical option for Poland: DIMs are relatively inflation-proof, more affordable than conventional credits, and resistant to external shocks. Appropriate DIM parameters and indexation can also help minimize risk. The design of DIMs requires choosing appropriate indexes that closely reflect the evolution of borrowers' incomes and the costs of lenders' funds; the indexes must be adjusted as often as necessary, be regularly published, and be relatively free from distortions. This paper suggests index options for DIM scenarios for Poland and provides examples of DIMs in other countries. Establishing an efficient DIM system requires frequent monitoring of payment-to-balance ratios and consideration of credit policies that have been recently developed. *Dual Index Mortgages* details several other recommendations for the sound underwriting and supervision of a DIM system and uses the experiences of Mexico, France, and other countries to help create a viable scenario for Poland's housing finance system.

### ***The Risks of Commercial Real Estate Lending***

Michael J. Lea

*Cardiff Consulting Services*

with

Achim Dübel

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RFS 624

The purpose of this study is to provide the NBP and the Ministry of Finance with a comprehensive overview of the risks of commercial real estate lending and how these risks are managed, regulated and supervised in selected European countries and the United States. The risks of commercial real estate lending depend critically on the type of lending, in particular whether loans are for property development or standing investment projects. It is the former more than the latter that is responsible for the enormous losses suffered by lenders in a number of Western countries during the 1980s and 1990s. Furthermore, the risk of commercial real estate lending depends on the legal standing of the lender (i.e., whether the lender has the right to foreclose on a defaulted loan and repossess the property within a reasonable time period and for reasonable cost) and the lessor (i.e., whether long-term lease contracts can be offered and enforced).

Lender underwriting is the key risk control variable. The focus of underwriting has traditionally been on the loan-to-value ratio and the debt service coverage ratio. Property valuation plays a key role in this process and the different approaches to valuation are highlighted in this study. Particular emphasis is given to the German concept of mortgageable value which is a regulatory guideline for valuation of properties collateralizing loans used as security for mortgage bonds. The recent U.S. experience is quite



instructive as well. As the funding of commercial real estate has shifted away from traditional intermediaries such as commercial banks and savings and loans and towards securitization, the rating agencies have become more prominent in the risk review process. They have developed detailed, quantitative rankings of the risks of commercial real estate backed securities that provide useful guidelines for regulators.

***Building on Progress: The Future of Housing Finance in Poland***

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**PUBLIC SECTOR POLICIES**

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**HOUSING SECTOR REVIEW**

Ms. Barbara Werchowicka, Cracow Real Estate Institute

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**INTERNATIONAL COMPARATIVE ANALYSIS**

Dr. Steven Mayo, Washington D.C.

May 1997

RFS 612

The primary goals of this study are to assess the emerging market-based housing finance system in Poland, the legal framework for mortgage lending, and the public finance system for housing and housing-related infrastructure, including the National Housing Fund, the proposed Renovation Fund, the housing allowance system, the Fund for Environmental Protection, and other initiatives guiding public housing policy development. It suggests three key goals of housing policy reform: the private sector increasingly owns the housing stock and provides new capital for its growth; rent and subsidy policies in the public sector are consistent with development of the private sector; and government plays a strategic and enabling role, curtailing its own role as a direct provider and manager.

The report also proposes a structure for Poland's public housing and infrastructure finance system in the near future. The structure builds on the public finance initiatives now in place, or nearly in place, for not-for-profit housing, rehabilitation, and housing-related infrastructure. Thus, the proposed structure does not alter the existing institutional arrangement but rather seeks to clarify the policy goals and to enhance the connections to sources of private funding. Although the roles of the national government and particularly the gminas remain crucial, various forms of public/private partnership increasingly take center stage.



**ANNEX III****FINAL REPORT OF THE MORTGAGE LENDING TRAINING PROJECT AND EXAMPLE OF  
A TRAINING "SUCCESS STORY"**

Program USAID

Warsaw, 19 June 99

**STRENGTHENING OF THE OPERATIONAL LEVEL  
MORTGAGE LENDING TRAINING SYSTEM  
(HOUSING FINANCE IN POLAND)  
AID Contract No. EPE-C-00-95-00110-00, RFS 641/07  
FINAL REPORT*****Introduction***

In 1997 USAID identified the need to develop training in mortgage lending to accelerate the transition of the Polish banking sector to a more diverse and robust housing finance system. This activity started in 1997, with RFS 49 (Training Development: Fundamental Skills for Mortgage Lending). Some training products were then developed to meet immediate and emerging needs of banks which were entering or expanding their operations in mortgage lending.

The objective of RFS 641 was to further develop the operational level mortgage lending training system whose foundations were developed under RFS 49.

The RFS included three major activities:

1. Facilitating and monitoring the provision of the three modules developed under Phase 1 and providing additional five training modules
2. Developing a technical expertise resource center – the Training Resource Group – to back up the mortgage training system with technical expert support, enabling further refinement and development of the training system
3. Strengthening the institutional basis of the training system.

Objectives of the RFS were successfully reached.



**Comment to objective 1.**

In total 7 training modules from the initial synopsis were developed. According to training needs expressed by three training institutes cooperating with the coordinator the material was organized in three workshops:

- Construction Loans for Individuals, including 3 following modules: origination and processing of individual construction loans, underwriting and servicing
- Multifamily Construction Loans for Developers, including 3 following modules: origination and processing of individual construction loans, underwriting and servicing
- Mortgage Bank Simulation Model, 1 module, 1 workshop

Through the cooperation agreement signed in January '99 (see Comment to objective 3) all remaining training modules from the initial synopsis will be developed and self-financed by cooperating parties to the agreement up to June, 30<sup>th</sup>, 99, including

- legal aspect of mortgage lending
- mortgage loan servicing
- appraisal for mortgage lending.

Materials were prepared by a group of Polish experts from banks and institutions active in housing finance sector, having large practical experience. Methodological supervision on materials prepared (except for Mortgage Bank Simulation Model) was provided free of charge by training institutes cooperating with the coordinator. Materials were accepted by experts and training institutes. Polish Banks Association, political supporter of the Training Program, expressed the interest to publish materials prepared under RFS 641 and RFS 49, to make them easier accessible to banking community.

Several training workshops were delivered during the Program based on materials prepared under RFS 49 (mortgage loans) and 641.

PROVIDER -- > WORKSHOP	GAB	WIB	MSBiF	REAS	Coordinator	TOTAL
mortgage loans	2	1	4			7
construction loans		2	2			4
developer loans				1		1
mortgage bank simulation model					5	5
train the trainer					1	1
<b>TOTAL</b>	<b>2</b>	<b>3</b>	<b>6</b>	<b>1</b>	<b>5</b>	<b>18</b>

Training on Mortgage Bank Simulation Model was delivered twice under the Program for bank employees (June and September) and three times for General Inspectorate of Banking Supervision (in November and December). Currently, the work concerning the MBSM (revised version specially adapted to GINB purpose) is still in process. The Model was delivered by Steve Bernstein. It is now in the testing



phase. Before the final end of the RFS an additional training will be offered to GINB, based on revised version of the Model and with case studies prepared especially for this purpose.

If three deliveries done under the first phase of the Program (RFS 49) (2 in MSBiF and 1 in GAB) are added, in total 21 workshops based on materials prepared under RFS 49 and 641 were delivered, with 324 students from banks, Cooperative Housing Foundation and GINB.

Also a new training workshop will be organized soon by GAB for Cooperative Housing Foundation (13 people already committed, 1-5 March, 99). In its „Yearly Training Program” bulletin Katowice offers „Mortgage Loans” workshop in 24-26 of February, „Construction Loans for Individuals” 10-12 of May, and also „Loans for Developers” was included in their offer, however the date was not indicated. WIB announced „Multifamily Construction Loans for Developers” workshop to be delivered 1-3 of March, „Construction Loans for Individuals” for 9-11 of June.<sup>1</sup>

GAB did not deliver many of workshops based on materials prepared, but their offer in housing finance is the largest, including several workshops outside of USAID Training Program. GAB offers several items, cooperating closely with their German partners:

- Appraisal for mortgage banks
- How a modern mortgage banks works
- How to issue mortgage bonds (Pfandbrief) in the financial market
- Legal aspects of mortgage activity
- How to run a Bausparkassen

At the beginning of February (2-4 of February) GAB also organized a study tour to Berlin, to meet several experts of the German Mortgage Banks Association.

In January '99 the training for trainers was organized. Training institutes, REAS and PBA were offered free places for the training. Lectures and practical exercises were given by Witold Modliński, lecturer in Renaissance Technology Group Ltd. Several people participated:

- Anna Sobkowska (PAMBank employee, co-author of Multifamily Construction Loans for Developers training workshop, potential WIB lecturer)
- Andrzej Szornak (PAMBank former employee, GAB lecturer),
- Katarzyna Siemaszko (Warmińsko-Mazurski Bank Regionalny employee, GAB lecturer),
- Luiza Gołaszewska (BISE employee, WIB potential lecturer),
- Mariusz Rogowski (RE-Finanse employee, Steve Bernstein Polish counterpart, WIB potential lecturer),
- Marian Wysocki (PKO BP employee, MSBiF lecturer),
- Jadwiga Ostrzechowska (Bank Śląski employee, potential lecturer in Warsaw Institute of Banking and Mortgage Credit Foundation)

The training strengthened the capacity of invited lecturers to efficiently transfer their know-how in the area of housing finance to students. Training materials prepared under first and second phase of the Training Program were used as base for exercises during the workshop.

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<sup>1</sup> „Mortgage Loans” were already delivered this year in WIB, according to their plan, 21-23 of January.



**Comment to objective 2.**

The Training Resource Group was set up. Two groups of member were invited to participate in regular meetings of TRG:

- eminent practitioners and experts from the mortgage sector (coming mainly from the most active banks in the sector)  
Elżbieta Bulwarska - Bud Bank  
Zdzisław Krystek - PBG  
Renata Kulesza - PAMBank, then Bank Śląski  
Andrzej Szornak - PAMBank
- representatives of three training institutes cooperating with the Program  
Małgorzata Gromiec - Warsaw Institute of Banking  
Danuta Dmytrów - Katowice International Banking School  
Justyna Wojtaszczyk - Gdansk Academy of Banking

Several experts cooperated with the coordinator and the TRG not being formally members:

Gregory Karachuk - former Training Program Coordinator

Kazimierz Kirejczyk - REAS

Anna Sobkowska - PAMBank

Beata Rajzer-Kruszewska - BISE, then HypoBank Polska

Mariusz Rogowski - RE-Finanse

Luiza Gołaszewska - BISE

TRG were meeting regularly between March 98 and July 98 to set up priorities for materials preparation, determine content of materials to be prepared, and work on preparation of materials. The last meeting was held in September in the group of experts for Multifamily Construction for Developers training workshop. During some meeting of the TRG the idea of cooperation agreement between active training institutes was raised and discussed. In the meeting in July Ms. Irena Stocka, from Polish Banks Association participated and advanced negotiations were then made.

Currently, the group of experts is actively involved in training delivery. All of them either already gave some lectures based on materials prepared (Bulwarska, Krystek, Kulesza, Szornak, Kirejczyk, Rogowski), or will do it in the near future. All of them (except for Beata Rajzer-Kruszewska) participated in train the trainer workshop (first delivery in July '97 or second delivery in January '99) and have capacity and willingness to teach their banking colleagues.

**Comment to objective 3.**

This objective was reached better than expected. The Program developed into a strong structure well institutionalized and incorporated in the national banking training system. Three training institutes and Polish Banks Association followed coordinator idea, inspired by USAID, to sign a cooperation agreement, allowing continuation and further development of USAID Training Program within Polish institutions.

The agreement

- insures sustainability of the training program and its self-financing,
- sets up a system of efficient communication between banking community and training institutes,
- guarantees high quality of training programs and training materials to be prepared in the future,



- is a formal base for setting up a comprehensive system of PBA recommendations to the best training programs prepared and delivered by training institutes and other training institutions.

In the same time the agreement recognizes good results of USAID and coordinator's work as well as high quality of materials prepared under RFS 641/97 and insure direct continuation and development of the training program initiated by USAID.

As a result of the agreement several goals of RFS 641/97 were reached:

- the agreement allows further expansion and integration of the training system
- the agreement arranges an advanced policy level sponsorship (and also financial sponsorship) from the side of PBA and includes mortgage lending within the national banking education system
- courses prepared under RFS 641/97 are formally authorized by PBA and incorporated in the national banking training system via training institutes; also, PBA officially expressed their interest in publishing materials prepared
- several institutions (PBA, Gdansk Academy of Banking, Katowice International Banking School and Warsaw Institute of Banking) accepted to cooperate in a very close and efficient way, despite of strong competition between some of them.

The agreement was signed in a national event, January 11<sup>th</sup>, 99, in the presence of the Ambassador of United States and several important guests from the Housing and Urban Development Office (HUDA), Treasury Department of State, Polish Banks Association, training institutes and high level banks' representatives. About 60 people participated in the event. Several newspapers and two TV Stations noted the agreement.

On February, 11<sup>th</sup>, the first session of the Council of the Training Program was held in Bankers Club, 6, Smolna Str. in Warsaw. Training institutes presented their offers for 1999. Every training institute planed to deliver every of three training workshops prepared under RFS 49 and 641 twice in the year in standard offer. This means that these workshops will be delivered 18 times in 1999. In addition, three institutes declared their intention to provide banks with workshops „on request” in needed. The council confirmed the will to prepare three additional training workshops: Appraisal, Legal Aspects and Mortgage Loan Servicing, determined procedures how to do it and divided work between members of the Council. PBA made engagement to sponsor an interview or an article in professional newspapers claiming the need for training in banking community and presenting the idea of cooperation agreement and scope of workshops delivered and under preparation. PBA also declared the will to publish training materials prepared under RFS 49 and 641. The Coordinator resigned from the position of president of the Council (resignation is due to the end of USAID Training Program) and the new president of the Council, Irena Stocka, took her new responsibilities.

With the continuation of the Training Program under the agreement the Training Resource Group and experts involved by the coordinator (or some people from this group) can not only work as lecturers, as mentioned in comments to objective 2, but they can also be used by PBA to continue new materials preparation, provide the Association with recommendations and advice. They can also help PBA to set up recommendations system (mentioned in the agreement) for the best training programs in housing finance area prepared by training institutions.



### *General comments and recommendations to USAID*

I consider that the main success of the USAID Training Program was activation of several people and institutions whose activity and capacity had been related to housing finance, but who had not been fully involved in. At the beginning of the Program my main problem was to convince training institutes that they should not wait for the market in housing finance training to come, but they should start offering larger scope of training workshops for this sector. Training institutes were extremely reluctant to this idea and did not want to take any commercial risk. I think this was due to two factors:

- financial weakness of the training sector (institutes can not invest into comprehensive training materials because of limited financial capacities)
- insufficient communication between banking community and training community.

The first barrier can be overcome by

- larger involvement of the banking community into training sector, even through more important direct capital investment into training institutes and active role playing in setting up training programs within training institutes
- deeper integration between existing training institutes, to create institutions which will be stronger financially. Such an integration was already initiated in some areas (Warsaw Institute of Banking and Katowice Banking School entered into a strategic alliance for housing finance), but I think this can be continued, probably in the direction of a kind of fusion.

I hope that the second barrier was already overcome thanks to the cooperation agreement signed. For sure, a system of communication was set up. However, its efficiency depends on real involvement and interest of people managing the system. USAID should keep an eye on developments of the agreement and recommendations system and provide PBA and training institutes with clever advice how to proceed. To strengthen PBA willingness to really continue development of the system of recommendations USAID could also support this development with some financial help. I think that a kind of USAID Grand Prix for the best training program (the best workshop or the best trainer) could be set up in close cooperation with Polish Banks Association. The risk with the end of USAID Training Program is that without the leader (as the coordinator was) the agreement can turn into formal paper. People involved in the agreement are also involved in several other parallel activities and will not be able to fully support the process. USAID Grand Prix can maintain active attention of PBA and training institutes focussed on housing finance. The price should not be anything expensive. It could rather be something symbolic, but recognized by everybody. Also Train the Training program could be maintained and repeated (if needed) in summer '99. This could be an offer from USAID side directly to training institutes (and not necessary related to housing finance only). Generally, training institutes do not invest into pedagogical and didactical capacity of their teachers because of limited funding.

Except for support mechanisms mentioned above, I think the system does not need any further USAID involvement. I consider that it is potentially fully self-efficient. Training institutes and PBA have a very large scope of instruments to benefit from:

- educated experts both in housing finance area and in pedagogical techniques ready to continue cooperation,
- mechanisms set up in the agreement covering co-financing, well targeted promotion, quality encouragement system, recommendation system



- consciousness of necessity and willingness to cooperate from both sides: training institutes and PBA
- A little bit more of attention should be kept on training for General Inspectorate of Banking Supervision (in the framework of Mortgage Bank Simulation Model). According to GINB expressed needs, the Model deviated in the direction of monitoring tool rather than simulation and training tool. This is a very important point for GINB and the model is for sure very useful for them. But the model itself, being a complex tool, will not be easy manipulated by GINB employees. I think that GINB does not only need a strong and reliable tool, but also all the competence laying behind the model: how to simulate development of a mortgage bank in different macroeconomic scenarios, which points should be considered as important, how to monitor different ratios specific for a mortgage bank - some of specific technical expertise. The delivery of the model could be an opportunity for a deeper basic training for GINB employees. The problem can be that people involved into Model development (Steve Bernstein, Mariusz Rogowski and myself) does not necessary have all the competence needed. I think that such a competence should be found in Danish or German banks or perhaps with some people already involved in setting up a mortgage bank in Poland.

Marek Koziarek

Training Program Coordinator



Warszawa, dnia 28-09-1998

*Success story*

Gdansk Academy of Banking (GAB) issued recently a new edition of their Training Program for autumn/winter'98 period. This Program mentions finally a very large scope of housing finance workshops. A whole chapter is devoted only to housing finance. Two parallel programs were set up:

- special mortgage bank personnel target (6 workshops, 14 days in total)
- universal bank personnel target (housing finance officers) (6 workshops 13 days in total)

Programs include all topics covered by USAID training program accepted by Resource Training planned to be prepared this year Group (except for mortgage bank simulation model, GAB is not convinced utility of this model), but also some other matters, developed by GAB experts and not inspired by USAID training program. Program matters are:

- Mortgage Loans (starting procedure, processing and underwriting)
- Construction Loans for Individuals
- Multifamily Project Finance (Developer Loan)
- Appraisal (in two aspects: full size 3-day training and 4h appendix to other workshops)
- Legal Aspects of Housing Finance

New matters offered have with no relation with the Program and exploit GAB close relationship with German training institutes. This includes:

- Modern Mortgage Bank Management (German know-how)
- Issuing and Selling Mortgage Bonds („Pfanbriefe”) on International Markets

The Academy also starts with new topics based on modified version of Program materials. This is a case for the topic: „Risk Management in Mortgage Finance”, which is based on „Mortgage Underwriting” prepared under the first phase managed by Greg Karachuk, chapter about „Scoring in Mortgage Finance”, written by the coordinator for „Construction Loans for Individuals” under the current stage of the Program and some additional topics added by the teacher Arkadiusz Niewęłowski himself.

For a long time Gdansk Academy of Banking was not convinced that housing finance workshops are really needed in the market. It was the most reluctant school to cooperate with the coordinator and other training institutes. The coordinator engaged many actions to make them change their mind:

- several meetings and discussions with GAB management (Marzenna Czerwinska deputy director and Mr. Piotrowski, executive director) and staff (J. Wojtaszczyk, training specialist).
- promotion of GAB in meetings with bank representatives
- promotion of GAB in the banking community (housing finance team within the Polish Banks Association).



The development of large-scale training program is also an answer to strategic alliance signed between Warsaw Institute of Banking and Katowice Banking School. Competition between training institutes, promoted by the coordinator, makes the offer more attractive and cheaper (average price of GAB training in housing is about 200 zł/ day, other institutes rate was planned to be about 300 zł).

The success is also a certain threat for the Program and challenge for the coordinator. The Gdansk Academy of Banking tries also to show that they are able to develop a large-scale training program by their own, not necessarily in cooperation with the coordinator and other training institutes. GAB trainers are involved in preparation of every training module. The new Training Schedule also should fortify their position in negotiation for the sublicense agreement. It is difficult to say at the moment whether GAB will join the sublicense agreement, or not, but if not, the banking community will be offered a large scope of workshops inspired by USAID Program and the coordinator.

Program USAID

Warszawa, dnia 10 April 2000



### **Success Story „Train the Trainer Program”**

In January, 12<sup>th</sup>-15<sup>th</sup>, a train the trainer workshop was delivered. This was the second delivery of the workshop (first time under RFS 49). The training was handled by the same trainer: Witold Modlinski from RTG Sp z o.o. and was focussed on know-how transfer techniques and methodology of training. The objective of the course was provide active and potential trainers in the area of housing finance with teaching skills. Three active training institutes, PBA and REAS were offered free places in the training and could recommend their active or potential trainers. Following people participated in the workshop:

- Anna Sobkowska (PAMBank employee, co-author of Multifamily Construction Loans for Developers training workshop, potential WIB lecturer)
- Andrzej Szornak (PAMBank former employee, GAB lecturer),
- Katarzyna Siemaszko (Warmińsko-Mazurski Bank Regionalny employee, GAB lecturer),
- Luiza Gołaszewska (BISE employee, WIB potential lecturer),
- Mariusz Rogowski (RE-Finanse employee, Steve Bernstein Polish counterpart, WIB potential lecturer),
- Marian Wysocki (PKO BP employee, MSBiF lecturer),
- Jadwiga Ostrzechowska (Bank Śląski employee, potential lecturer in Warsaw Institute of Banking and Mortgage Credit Foundation)

Some people could not participate despite invitation:





- Grzegorz Żochowski (REAS employee and lecturer)
- Arkadiusz Niewęglowski (Bank Przemysłowy employee, active WIB and MSBiF lecturer)
- Janusz Bednarz (Lublin University of Marie Curie-Skłodowska employee, MSBiF lecturer)
- Beata Rajzer-Kruszewska (Hypbank Polska employee, active free-lance lecturer in mortgage legal aspects, potential WIB lecturer)

The training strengthened the capacity of invited lecturers to efficiently transfer their know-how in the area of housing finance to students. Training materials prepared under first and second phase of the Training Program were used as base for exercises during the workshop. The course was divided into theoretical and practical phases. In the practical phase all participants had opportunity to present some topics from training materials using techniques they learned during the course. All participants were very satisfied. Let me mention some of their comments expressed in Training Evaluation Sheet: „Experience obtained during the course will help me better perform my work as trainer”, „Sharing experience with other active trainers was the most important advantage of the course”, „The success of this training is mainly due to the trainer himself and his personality which perfectly fits with needs of the workshop”.

I hope Polish Banks Association will continue the tradition of Train the Trainer workshops. Usually, trainers in banking schools have a very strong knowledge of topics they train about, but very often their are unable to present this knowledge in an attractive and interesting way to students.

Marek Koziarek



## **ANNEX IV:**

### **“USAID’s Program of Assistance to Poland’s Housing Finance Sector: 1991 - 1999”**

**Michael Lee, USAID Warsaw, 1999.**

#### **USAID's Assistance to Poland's Housing Finance Sector, 1991 – 1999**

##### **Summary**

This paper summarizes the way in which USAID has assisted the evolution of Poland's housing finance sector in the first, critical, decade of transition. Assistance started in 1991, at a time when all lending was made by the state savings bank at highly subsidized rates, and when there was no private or legal infrastructure to support mortgage lending. When our program of assistance ends in 1999, the sector will have developed to the extent that it no longer stood in need of any sustained foreign assistance. Within the near future:

- private mortgage lending will be sufficiently robust to withstand major macro-economic shocks;
- mortgage lending will be provided relatively efficiently, through a competitive system (with different types of lender, offering a variety of mortgage products, throughout the country);
- the public housing finance policy will be reasonably supportive of private sector lending, and with subsidies becoming well and transparently targeted to those groups that cannot access private housing finance; and
- the legal, regulatory and institutional structure will be in place to support continued growth and development of the sector, and whereby Polish institutions can undertake critical analyses and obtain access to technical advice for specialized assignments.

##### **The Evolution of the Sector**

Poland entered the 1990s with a stock of housing well below the European standards to which the country aspired, and with a declining rate of housing production. In the early 1990s, there were 296 housing units for every 1,000 people, compared with 334 per 1,000 in Slovakia, 397 in the Czech Republic, 383 in Hungary, and 481 in Western Europe. The housing stock was in an abysmal state of repair: a widely accepted estimate was that 11.4 percent of the stock needed immediate replacement and that 8 percent needed major repairs. Housing production had fallen from 150,000 units in 1989 to a reported 62,000 in 1996. (1997 and 1998 witnessed a small recovery – although we suspect that actual completions are significantly higher than the numbers officially reported.) These conditions were the consequence of a



deep recession, a lack of affordable mortgages, lack of confidence in the financial sector, and a poor legal, institutional and regulatory framework.

Although people in the rural areas were somehow building their own housing, the new Poland inherited no institutional infrastructure for urban housing delivery. There was no profession of developer. The only available form of home financing was subsidized but severely restricted credit from the State Savings Bank, PKO BP. There was little ability on the part of local governments to facilitate any form of private housing construction. The public sector had no resources to maintain or renew its housing stock for low-income households, but were maintaining rents of “social housing” at an unsustainably low level. All of these problems were a legacy of central planning. At the same time, popular perception was that housing was a right, a social good to be provided by government.

Several initiatives ran in parallel to achieve a sectoral transformation, which, in its later years, has accelerated dramatically. The table at the end of this paper summarizes the main milestones in the development of the housing finance sector, and of USAID's own role in helping this metamorphosis.

Among the more significant changes was that PKO BP announced the cessation of its subsidized housing loans - which, because it was unsustainable and inconsistent with a market economy - both created an uncompetitive environment for private lenders, and led to unrealistic public expectations concerning interest rates. However, because of a considerable overhang of commitments by PKO BP, it was not until 1996 that the last subsidized loan was actually disbursed.

Simultaneously, the Polish Government turned for help to USAID and other donors. The USAID response is described below. A Mortgage Fund was capitalized with funds from USAID, the World Bank, the EBRD and the Government of Poland, in order to on-lend long-term capital, at market rates, to commercial banks for mortgage loans and construction finance. Because Poland was faced with continuing high and unpredictable interest rates, the basic instrument employed was the Dual Indexed Mortgage (DIM), which was linked to changes in earnings and interest rates.

Other than the few banks that chose to participate in the Mortgage Fund, a very few other banks opted to offer mortgage loans and construction finance to their customers. The first of these was the Polish American Mortgage Bank (PAMBank), financed in part by the Polish American Enterprise Fund, itself supported by USAID. PAMBank (most of whose loans are denominated in US dollars) first opened its doors for business in 1993. The next commercial bank to start lending for housing was PBK, which did not offer its first loan until 1995.

The Mortgage Fund succeeded in spearheading a remarkable transformation in the banking industry. It demonstrated to commercial banks that mortgage and construction lending is profitable. It established industry standards for loan origination and underwriting. Although the complexity of the DIM was to prove a barrier to its widespread acceptance, the Mortgage Fund, together with PAMBank, developed the initial public demand for unsubsidized mortgages.

Three years ago, other than the four banks participating in the Mortgage Fund, PAMBank and PKO BP, there was only one other bank making unsubsidized mortgage loans (PBK). Today, perhaps 30 banks offer commercial loans for housing. In the last year, the value of the mortgage loan assets held by these



banks doubled; over 100,000 loans have been sold in the last four years. A variety of loans are being marketed, including two variants of the DIM, and conventional variable rate mortgages denominated in zlotys and foreign currencies. Loans are available for the purchase of new and existing housing, for renovations and extensions, and for construction. It is estimated that about 20 percent of homebuyers now take out a mortgage, with the proportion rising.

Other components of a market-driven housing delivery system have simultaneously been put in place. A Polish Association of Home Builders has become a self-sufficient organization representing small and medium-sized builders and developers. The professions of appraiser, real estate broker and property manager have become established and recognized in law, with their own professional associations. Bank training schools have started to offer a variety of training courses in housing finance subjects. The Polish Banks Association has set up a permanent Housing Finance Committee, with a full-time salaried secretariat. Banks are cooperating with real estate brokers in loan origination.

There have been advances, too, in the development of social support schemes for housing for economically weaker households. A variety of schemes are proposed, which promise to be more efficient and transparent than the previous raft of poorly-targeted subsidies. The longest-established is the non-profit housing association (TBS), primarily for the construction of rental housing, which receives substantial subsidized loans from the National Housing Fund and grants-in-kind from local authorities; this is targeted towards middle income households. Other schemes were – at the time of writing – still before Parliament. Rents of local authority apartments are in the process of being de-controlled, with a safety cushion provided by housing allowances for poorer households. The Housing and Urban Development Authority has published a Strategy for the Sector, with a stated purpose to "promote competitiveness and limit [the State's] interference to a minimum... State assistance for the housing sector should be directed to precisely defined groups of people... Welfare cushioning programs should be clearly separated".

Until now, commercial banks have financed their long-term lending for housing either from the Mortgage Fund or, more often, from their own short- and medium-term resources. In order to reduce the transformation risk and to lower lending costs, a law was passed in 1997 which permits the creation of specialized mortgage banks, a form of bank which was active in Poland before the war. Raising capital through the issue of mortgage bonds, mortgage banks will be able to access capital markets directly. Sale of the bonds will depend on stable, lower interest rates. With inflation now under control and at the single digit level, the first licenses for mortgage banks have recently been issued, with several other banks having expressed a firm intention to enter the market.

With these advances, the sector has attained its first, major, stage of development: the basic policies, instruments and skills are in place to be able to boast of the existence of a market-based housing finance system. Nevertheless, the sector is still small and relatively fragile: the system is inefficient and therefore expensive to its customers; it may be unprofitable to several participants; it is vulnerable to a variety of risks, largely unquantified and largely unknown to the participants; because barely regulated, it is open to exploitation; and, although it has the good will of the government, its growth is not yet well supported by legislation. Much remains to be accomplished before the transformation of the sector is complete.





## USAID's Role

USAID has actively supported the development of Poland's banking sector, and of the institutional, legal and regulatory infrastructure necessary for the evolution of a modern housing finance system, since the early 1990s.

At that time, Poland turned to USAID and other donors for help in transforming the housing delivery system from one constrained by central planning to one which was market-based, efficient and effective. Beginning in 1991, USAID and the then Regional Housing and Urban Development Office (RHUDO/Warsaw) embarked on a three-fold housing reform support program:

- the development of a non-subsidized, sustainable housing finance system;
- direct assistance to developers, to generate housing projects; and
- a series of initiatives to help local governments support a supply of private housing.

To stimulate a commercial mortgage system, USAID collaborated with other donors to capitalize a Mortgage Fund. USAID's Housing Guaranty loan complemented funds from the World Bank, the EBRD and the Polish Government, for an initial total of \$400 million<sup>2</sup>. Technical assistance was provided - initially to the Bud-Bank, which managed the Fund, and later (1994-1996) to the Housing Finance Project Office, a Polish Government agency with responsibility for assisting with the management and implementation of the donor-supported Mortgage Fund Project.

From 1994 to 1997, USAID's program of technical assistance to the housing finance sector focused on the following issues:

- developing a capacity by bankers and developers to use construction loans;
- working with banks and bank training institutes to initiate a basic curriculum for training bankers in the elements of housing finance;
- establishing the need for an association of bankers to represent the community of interests of the housing finance industry;
- assisting commercial banks to use Mortgage Fund facilities more effectively.<sup>3</sup>

Simultaneously, the Eastern European Real Estate Federation has been working since 1992 to establish the real estate professions in Poland:

- the Polish Real Estate Federation was established in 1994<sup>4</sup>; it now has 19 regional associations, with 1,500 member brokers;
- the Polish Federation of Valuers' Associations was established in 1995; it now has 29 regional associations, with well over 3,000 member appraisers.

By late 1996, USAID-supported technical assistance had:

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<sup>2</sup> Subsequently reduced.

<sup>3</sup> USAID's housing finance sector technical assistance program in Poland was implemented by PADCO, Inc. from mid-1994 to September 1997.

<sup>4</sup> ...as the Polish Federation of Real Estate Brokers Associations

- provided training and analytic services which resulted in the construction or planning of about 2,000 housing units;
- worked with Bud-Bank and commercial banks participating in the Mortgage Fund to develop procedures and standard forms for construction and mortgage loans;
- initiated a training development and capacity building program, which prepared a detailed curriculum of 13 training courses, the course materials for three of these courses, training of trainers, and had helped deliver the first courses in two bank training schools;
- assisted in the implementation of a housing allowance system that allowed the introduction of market-oriented rents for public housing;
- provided a forum for the discussion of housing finance issues;
- prepared training manuals and computer programs for the planning and financial design of TBS programs.

The critical elements were then in place within the banks for a steady take-off of mortgage lending in Poland. The institutional infrastructure, however, was not yet designed to support an industry: there was no central bank regulation; there was relatively little understanding of the goals or techniques of mortgage lending within central government, and therefore certain policy mechanisms were acting contrary to the interests of the sector and of the country, and initiatives were being undertaken in isolation from the rest of the sector; there was no central group representing the interests of the bankers, or pursuing common goals; the industry was, at times, doing itself a disservice through its inefficiencies and poor customer service; and the ancillary finance instruments by now common in western countries were largely unknown in Poland. There was no public debate on housing finance issues, and the media remained poorly informed.

An analysis of options for the future of Poland's commercial and public housing finance sector was therefore undertaken for USAID, in order to raise these issues to the level of a public debate, and to help formulate USAID's own assistance program for the next few years. The findings of this analysis were included in a seminal report entitled "Building on Progress". This report was presented at an April 1997 conference, which brought together members of the Polish government, the banking community, regulators and the media to discuss the state of the housing sector.<sup>5</sup> The conference and the report helped spark a wave of media interest in housing finance, and have led to a much sharper focus of professional interest in the housing finance sector on the part of all the main actors.

Since that time, USAID consultants have concentrated on development of an institutional capacity to ensure the robustness of the sector.<sup>6</sup> The recent program has been:

- working with the Banking Supervision Department of the National Bank of Poland (NBP) to advise on the development of an appropriate regulatory framework;
- continuing the development of a capacity in the bank training schools to deliver and develop a complete curriculum of housing finance courses;

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<sup>5</sup> *Building on Progress: The Future of Housing Finance in Poland*, The Urban Institute Consortium for USAID/Warsaw, May 1997.

<sup>6</sup> USAID's housing finance sector technical assistance program has been implemented since October 1996 by the Urban Institute Consortium, represented in Warsaw by the Cracow Real Estate Institute.



- undertaking analyses of public sector housing finance policies, especially insofar as they impact on the mobilization of private finance for sectoral development;
- introducing the concept to the banking community of basic ancillary instruments (mortgage default insurance; data bases for appraised values; etc); and
- assisting central government bodies with the fine-tuning of a number of legislative initiatives.

Achievements that can directly or indirectly be attributed to this, final, phase of assistance include the following:

- Raised awareness within government, the banking sector and the media of the importance of housing finance, and the interrelationship of its various components, through conferences, reports and technical assistance;
- Enhanced understanding of regulatory issues;
- Completed the development of a mortgage bank simulation model;
- Argued for tax treatment for Mortgage Banks that does not discriminate against universal banks;
- Proposed revisions to contract savings legislation that would mitigate the most damaging effects threatened by the legislation;
- Prepared analytic studies that have contributed to changes in national legislation;
- Undertaken research which is expected to lead to repeal of the Statutory Lien;
- Generated interest in the development of ancillary financial instruments – notably mortgage default insurance;
- Established sustainable, comprehensive, housing finance training programs in three bank training institutes, and an agreement with the PBA to continue cooperation on the training program beyond the end of USAID's assistance;
- Facilitated a linkage between PBA and the (American) Mortgage Bankers Association;
- With PBA, managed a national and a regional conference to chart future priorities for development of housing finance in Poland, and in Central and Eastern Europe;
- Contributed to continuing public debate through the provision of reports, briefing papers and conferences.

A bibliography of selected reports is appended to this paper.

## **The Future**

USAID believes that the future of the sector - in, say, ten years from now - will look as follows.

Demand for residential mortgages is likely to remain relatively low in the next few years, until such time as real interest rates have fallen further, banks and their customers become more comfortable with the principle of long-term mortgage lending, certain legal obstacles are softened (e.g. the Statutory Lien, difficulties of foreclosure, and uncertain and expensive title registration procedures), and the market disincentive of highly subsidized rents for social housing is reduced (with compensating housing allowances). As these constraints are gradually removed, as developers become increasingly sophisticated



and willing to compete on price, and as local governments start to play a more active role as facilitators of private housing construction, so demand will pick up and start to move towards levels experienced in countries with more mature financial systems.

Within five to ten years, the residential mortgage market will be served by two types of lender: a few specialized mortgage banks, with outlets in the principal urban agglomerations; and several universal banks - probably fewer than at present, since competition will have reduced the number able to compete effectively - will lend at a cost marginally above that of the mortgage banks, but will compete on service, accessibility and cross-selling.

The Mortgage Fund will have ceased to exist, but may well have been succeeded by a secondary mortgage facility, a predominantly private financial institution that purchases and sells mortgage assets from smaller banks.

Despite a likely contraction in the number of banks active in the sector, the population will be better served than at present: towns with a population of 10,000 and more generally have at least two outlets, each with a staff trained in mortgage and construction lending, and in customer service, and offering a wider choice of mortgages and insurance instruments. Whereas a standard apartment in many cities can now be afforded by a middle income household (PLN 2,000 per month) with cash savings equal to eighteen months' income<sup>7</sup>, such an apartment will then be affordable to households much lower in the income distribution, with a much lower downpayment than commonly needed today.

The sector will be regulated effectively by an office within NBP, its inspectorate and policymakers routinely using (and updating) the manual on mortgage finance regulation. The growth and development of the sector will be led by a mortgage bankers association (with institutional links to the American Mortgage Bankers Association). Among other products and services that will by then be familiar to the market, will be mortgage protection instruments (such as mortgage default insurance). The sector will be more effectively monitored and the quality of research improved, with both bankers, central and local government decision-makers, and the public at large better informed about trends and options.

The state will still find it necessary to provide subsidies to many households below the median income, as well as small subsidies for the repair of dilapidated multifamily housing, since there will continue to be a gap between incomes and affordable prices. Many of the inefficiencies that can be found in the present system will be removed or reduced, thus both creating a smoother continuum between the subsidized and unsubsidized sectors than at present, and with built-in incentives for the role of private capital in financing public and private housing.

USAID's program of assistance has been driven by this vision of the future; our final year in Poland has been devoted to working with our partners to continue building a housing finance delivery system that is robust, efficient and effective, that builds on the successes and avoids the failings that have been

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<sup>7</sup> Assume a 50 square meter apartment to cost about PLN 90,000. If a household has access to enough savings to purchase this with a 40 percent downpayment (60 percent LTV), the monthly payment on a DIM loan will cost PLN 650 per month, affordable to a household with an income of PLN 2,000 a month. Poland's average monthly household income is currently estimated to be around PLN 2,500.



experienced in more developed financial systems, and that in every way is able to meet the challenges of the twenty first century.

#### Our Legacy at the End of the Program

- A housing finance system that is effectively regulated and supervised by NBP
- A sustainable housing finance training system that is managed by Polish institutions
- A banking sector that is well represented, and well served, by the PBA in housing finance issues
- A housing finance system that is well-balanced, and capable of development and expansion
- A public sector that is well informed on the options for support and intervention.



### Chronology: The Development of the Sector, 1991-1999

	Banking Milestones	Institutional Milestones	USAID Milestones
1991		<ul style="list-style-type: none"> <li>* Housing Finance Project Office established</li> <li>* Mortgage Credit Foundation created</li> </ul>	<ul style="list-style-type: none"> <li>* FNMA conference on housing finance</li> </ul>
1992	<ul style="list-style-type: none"> <li>* PKO BP declares intention to end subsidized lending to cooperatives</li> </ul>		<ul style="list-style-type: none"> <li>* HG program to support Mortgage Fund authorized</li> <li>* HBI/APHBI program initiated</li> <li>* EERPF assistance initiated</li> </ul>
1993	<ul style="list-style-type: none"> <li>* PAMBank offers first \$-denominated mortgage loan</li> </ul>	<ul style="list-style-type: none"> <li>* Housing Allowance program</li> <li>* Rent setting authority given to gminas</li> </ul>	<ul style="list-style-type: none"> <li>* \$10 million HG loan Mortgage Fund</li> </ul>
1994	<ul style="list-style-type: none"> <li>* Mortgage Fund (MF) finances first loan</li> <li>* PKO BP declares intention to end subsidized lending to individuals</li> </ul>	<ul style="list-style-type: none"> <li>* PAHB formed</li> <li>* PFREB formed</li> </ul>	<ul style="list-style-type: none"> <li>* First training courses for developers</li> <li>* RHUDO Director receives Polish state honor for service to housing</li> </ul>
1995	<ul style="list-style-type: none"> <li>* PBK offers first mortgage loans</li> <li>* PKO BP offer first non-subsidized mortgage loans</li> </ul>	<ul style="list-style-type: none"> <li>* National Housing Fund established to support subsidized lending to non-profit housing associations (TBS)</li> <li>* PFVA formed</li> </ul>	<ul style="list-style-type: none"> <li>* NAHB/RC begins support of PAHB</li> <li>* PADCO appoints resident Mortgage Banking Advisor</li> </ul>
1996	<ul style="list-style-type: none"> <li>* PKO BP disburses last subsidized loans</li> <li>* First 100 mortgages from Mortgage Fund</li> <li>* 4 Mortgage Fund-supported banks and 3 others offer mortgage loans</li> </ul>	<ul style="list-style-type: none"> <li>* Mortgage Credit Foundation re-established</li> <li>* HFPO dissolved (CREI/Warsaw and REAS established)</li> <li>* EBRD withdraws from sector</li> <li>* Kasy Mieszkaniowe contract savings schemes start</li> </ul>	<ul style="list-style-type: none"> <li>* TBS manual and software published</li> <li>* Full-time training development advisor appointed</li> <li>* National conference on training for housing finance</li> <li>* 600 bankers attended USA supported courses on construction lending; 450 developers received technical assistance</li> </ul>
1997	<ul style="list-style-type: none"> <li>* about 20 banks offer long-term housing loans</li> <li>* 4 banks participate in the Mortgage Fund</li> <li>* 5 basic mortgage loans</li> </ul>	<ul style="list-style-type: none"> <li>* Mortgage Banking Act passed</li> <li>* Kasy Budowlane legislation passed (but not effective)</li> <li>* First bank training institute offers housing finance courses</li> </ul>	<ul style="list-style-type: none"> <li>* National conference on future of housing finance</li> <li>* Report "Building on Progress" widely distributed</li> <li>* Workshop on housing finance</li> </ul>



	<p>instruments available: PLN [DIM / Deferred Payment / amortizing (fixed or variable)] and foreign currency</p> <ul style="list-style-type: none"> <li>* USAID survey reports 4% of the population has taken a mortgage loan</li> <li>* PBA creates Housing Finance Team with full time professional secretariat</li> </ul>	<p>independently of USAID</p> <ul style="list-style-type: none"> <li>* Official statistics show first upturn in housing completions</li> <li>* Several newspapers start publication of weekly housing supplements</li> </ul>	<p>regulation with NBP; series reports on regulatory issues</p> <ul style="list-style-type: none"> <li>* First IREM courses offered</li> </ul>
1998	<ul style="list-style-type: none"> <li>* 28 banks now offer long-term mortgage and construction loans</li> <li>* Net growth rate of mortgages exceeds 40% p.a. (gross rate is higher)</li> <li>* Bud-Bank announces entry into retail lending</li> <li>* G12 group of small regional banks express interest in mortgage banking</li> </ul>	<ul style="list-style-type: none"> <li>* Ministry of Finance re-examines Kasy Budowlane and Statutory Lien legislation</li> <li>* HUDA's first housing policy strategy</li> <li>* 3 bank training institutes offer housing finance courses</li> <li>* PAHB reaches financial independence</li> </ul>	<ul style="list-style-type: none"> <li>* USAID advises MOF HUDA on reform of K Budowlane legislation</li> <li>* Recommendations to MOF reform of Statutory Lien</li> <li>* Study Tour to U.S. by F members</li> <li>* LGPP initiates housing land management assistance programs</li> <li>* HG loan completely drawn down</li> </ul>
1999	<ul style="list-style-type: none"> <li>* Mortgage credit continues to increase at annual rate of 90 percent</li> <li>* Loans taken by 74 TBS; construction of over 2,000 units (by end-98)</li> <li>* License granted for first Mortgage Banks</li> </ul>	<ul style="list-style-type: none"> <li>* Numerous proposals for demand-oriented legislative revisions in pipeline</li> <li>* Agreement between PBA and bank training institutes</li> <li>* Polish chapter of IREM formed</li> </ul>	<ul style="list-style-type: none"> <li>* Recommendations on reform public housing finance policy</li> <li>* Seminar (with MCF) mortgage insurance</li> <li>* Mortgage bank simulation model completed</li> <li>* National and regional "ager setting" conferences</li> <li>* USAID housing finance program completed</li> </ul>

Acronyms used in this table:

APHBI American Polish Home Builders  
Institute  
CREI Cracow Real Estate Institute  
DIM Dual Indexed Mortgage  
EBRD European Bank for Regional  
Development  
EERPF Eastern European Real Property  
Foundation  
FNMA Federal National Mortgage Association  
G12 Group of Twelve  
HBI Home Builders Institute  
HG Housing Guaranty  
HUDA Housing and Urban Development.  
Authority  
IREM Institute of Real Estate Management of  
Chicago  
IBRD World Bank  
LGPP Local Govt. Partnership Program  
MCF Mortgage Credit Foundation  
MOF Ministry of Finance  
NBP National Bank of Poland  
PADCO Planning and Development  
Collaborative International, Inc.  
PAHB Polish Association of Home Builders  
PBA Polish Banks Association  
PFREB Polish Federation of Real estate Brokers  
PFVA Polish federation of Valuers'  
Associations  
REAS Real Estate Advisory Services  
RHUDO Regional Housing and Urban  
Development Office  
TBS Towarzystwo Budownictwa  
Społecznego (Public Housing Association)



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